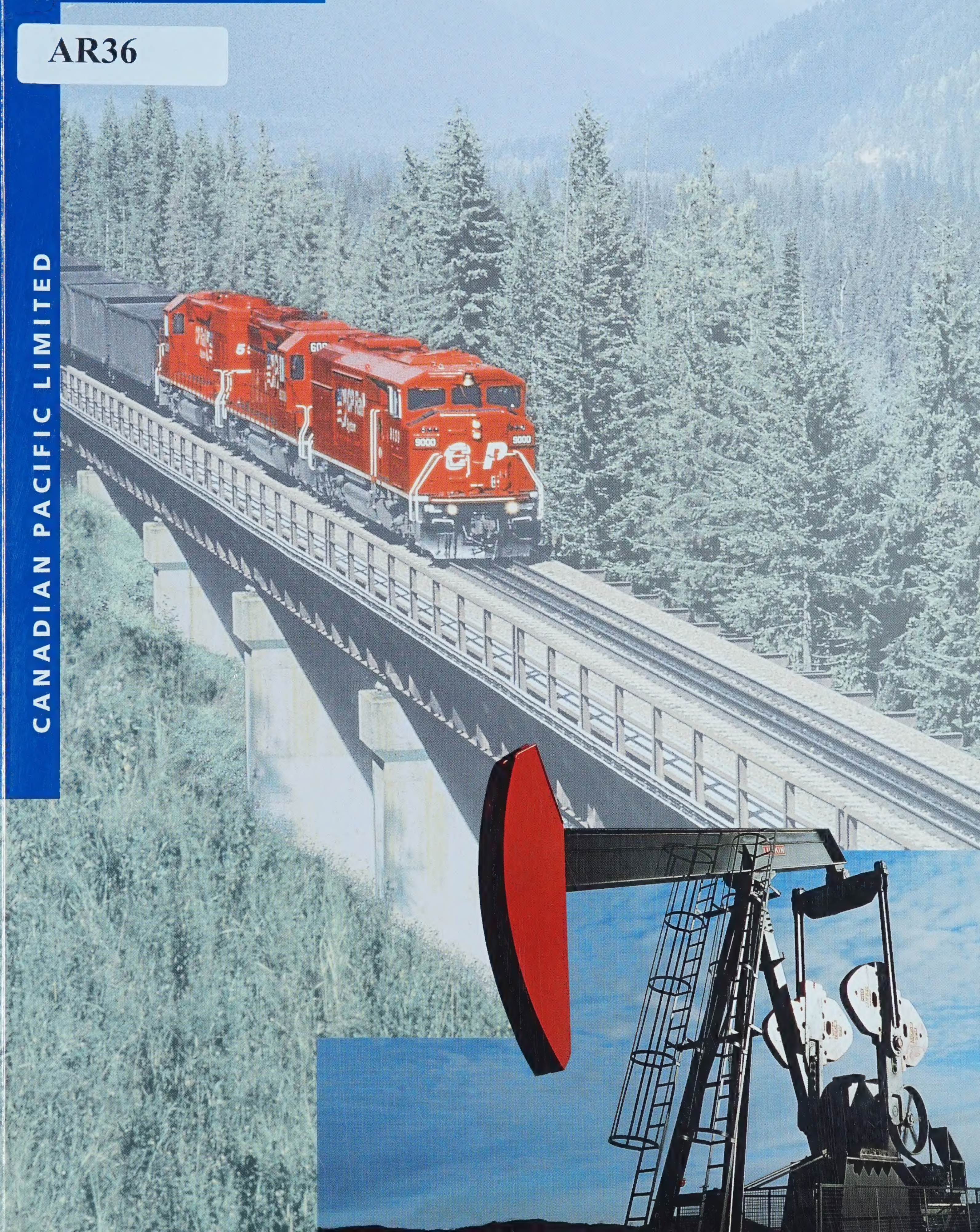
1994 ANNUAL REPORT

CANADIAN PACIFIC LIMITED

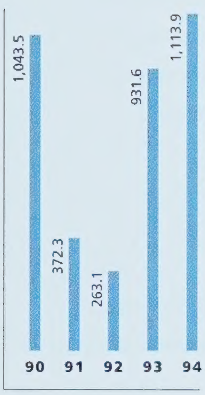


1995 Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, May 3, 1995 at the Hotel Macdonald, 10065-100 Street, Edmonton, Alberta, Canada, at 11:00 a.m., Edmonton time.

Contents

Highlights



Operating Income
($ millions)

Net Income (Loss)
($ millions)

(dollars in millions, except amounts per share)	1994	1993	1992
Income Items			
Revenues from continuing operations	$ 7,053.4	$ 6,336.8	$ 6,786.8
Operating income (loss)			
Transportation	$ 363.0	$ 299.7	$ (325.0)
Energy	505.8	397.9	321.7
Real Estate and Hotels	245.1	234.0	253.2
Telecommunications and Manufacturing	–	–	13.2
	$ 1,113.9	$ 931.6	$ 263.1
Income (loss) from continuing operations	$ 409.8	$ (9.8)	$ (195.6)
Net income (loss)	$ 393.1	$ (190.6)	$ (478.3)
Per Ordinary Share			
Income (loss) from continuing operations	$ 1.21	$ (0.03)	$ (0.61)
Net income (loss)	$ 1.16	$ (0.60)	$ (1.50)
Dividends	$ 0.32	$ 0.32	$ 0.32
Market price at year end (Toronto Stock Exchange)	$ 20⅞	$ 21⅝	$ 16⅛
Rates of Return			
Average shareholders' equity	6.1%	(3.1)%	(7.3)%
Average capital employed (operating)	8.7%	7.1%	1.2%
Financial Condition			
Capital expenditures	$ 1,388.3	$ 1,134.4	$ 1,148.7
Cash on hand	$ 1,239.9	$ 1,637.4	$ 1,237.7
Total long term debt	$ 5,078.3	$ 6,241.4	$ 7,888.3
Shareholders' equity	$ 6,814.3	$ 6,030.7	$ 6,313.4
Total assets	$ 16,912.3	$ 17,134.3	$ 20,275.2
Debt:equity ratio	42:58	50:50	53:47
Ordinary Share Capital			
Average number of shares outstanding (in millions)	337.5	319.2	318.8
Number of shareholders at year end	45,254	50,860	56,211
Number of Employees			
Average for the year	36,200	39,300	63,300

To the Shareholders

In 1994, all of Canadian Pacific's ongoing businesses turned in solid performances. Operating income exceeded $1 billion, reaching its highest level since 1987. Also, for the first time since 1990, the absence of costly special charges enabled the Company to carry these strong operating results to the bottom line. Earnings from continuing operations were $409.8 million, or $1.21 per Ordinary Share.

Canadian Pacific's financial condition continued to improve in 1994. Proceeds from the equity issue last March and higher levels of cash from operations allowed the Company to make significant debt repayments. With cash on hand of $1.2 billion and a debt-to-equity ratio of 42:58 at year-end, the balance sheet is one of the strongest in years.

Progress Made on Strategic Objectives

Numbers were only part of the story in 1994.

During the year, the refocusing of the portfolio on the core transportation and energy businesses was substantially completed. These businesses will be the main sources of earnings and growth in the future.

The remaining divisions of CP Trucks were sold in one of the largest employee buy-outs in Canadian history, and additional steps were taken to dispose of the Company's interest in United Dominion Industries.

The Unitel shareholders' agreement was renegotiated in January, 1995. The amended agreement extends the maturity date of the existing Unitel bank loan for four months and provides additional interim funding. This will give the shareholders time to intensify their efforts to bring about regulatory changes in the long-distance voice market.

Canadian Pacific has also granted Rogers Communications an option to purchase its 48% interest in Unitel. This option can be exercised at Rogers' discretion until April 28, 1995. If the option is not exercised, Canadian Pacific has full liquidity rights with respect to its Unitel shares.

To succeed in today's complex and rapidly-changing telecommunications environment, Unitel needs closer ties with its two strong telecommunications partners, Rogers and AT&T, who are prepared to focus their full attention on the competitive and regulatory challenges that lie ahead.

The federal government's rejection of CP Rail System's offer to purchase Canadian National's eastern rail operations was a major disappointment. It was a sound, realistic offer that met the government's objectives of privatizing Crown corporations and reducing public debt. It was a good offer for the government, for taxpayers and for the future viability of the Canadian railway industry.

It would have privatized CN's eastern operations immediately and made it possible to privatize the western operations in the near term. Canadian Pacific continues to support the privatization of CN, but it is difficult to envision an alternative to the offer that would not require yet another recapitalization of CN. If the proceeds of privatization were used for this purpose, it would give CN an unfair advantage over CP Rail System.

An opportunity has been missed with the rejection of CP Rail System's offer and the fundamental issue of overcapacity in the eastern rail network is still unresolved. However, on the positive side, there are signs that some progress can be made in 1995. The minister of transport has indicated that a comprehensive rail policy framework will be put in place this year and he has stressed the importance of putting the railways on a stable footing and maintaining healthy competition in the transportation industry.

Changes to the legislation governing the transportation of western grain announced by the minister of finance in his budget speech of February 27, 1995 will create a new environment for this traffic. Revenues will be affected during a period of dynamic change in the grain and distribution system; however, there are significant opportunities for introducing greater efficiencies and savings as well.

Strong Operating Performances by Key Businesses

In the meantime, CP Rail System continued to rationalize its plant and workforce and improve productivity and service. Further progress was made on line rationalization with the successful sale of lines east of Sherbrooke, Quebec and other abandonments. The overall efficiency of rail operations continued to improve with expenses per gross ton mile in 1994 down for the second consecutive year.

These measures, combined with higher traffic in most commodities and a stronger economy, helped the railway achieve an increase in operating income. A costly 47-day strike at the Soo Line had a negative impact on performance, but the railway did achieve an advantageous settlement.

A strong capital program at the railway aimed at providing a high level of service will be the cornerstone to achieving higher traffic levels and increasing market share in the coming years. Most of the increase in capital is earmarked for new locomotives, freight cars and capacity improvements in Western Canada.

CP Ships had another outstanding year. Canada Maritime has developed a strong market position over the Port of Montreal gateway. In 1994, it expanded its routes and its capacity on the North Atlantic and made significant long term commitments for the renewal and expansion of its fleet.

The agreement to purchase the shipping operations of the Cast group was approved by the National Transportation Agency in January but still has other regulatory hurdles to clear. The acquisition would give Canadian Pacific an opportunity, over the next few years, to build a billion dollar container shipping business able to compete effectively over the long term with the major global carriers on the North Atlantic.

Both of Canadian Pacific's energy companies, PanCanadian Petroleum and Fording Coal, had excellent years in 1994. This has become the norm for these outstanding performers, who have driven the company's earnings throughout the 1990s.

At PanCanadian, an aggressive exploration and development program helped increase sales 32%, and production 9% measured on a barrel of oil equivalent basis. The result was a 24% increase in net income and a 23% increase in cash flow. Over the past five years, PanCanadian has increased production of conventional crude oil and natural gas by 86% and 65%, respectively, and now ranks as Canada's second largest oil and gas producer.

Equally exciting for PanCanadian's long term future was its success in adding reserves while keeping costs relatively low by historical standards. PanCanadian replaced 170% of 1994 production, adding 136 million barrels of oil equivalent to its proved reserves. Unit operating costs for conventional oil decreased for the fourth consecutive year, while the unit operating costs for gas rose slightly in 1994 after two years of decline.

Fording Coal has grown rapidly over the last few years into a world-class business serving global markets. Performance records were set in 1994 at its Fording River and Greenhills metallurgical coal operations in British Columbia and production doubled at the Genesee operation in Alberta. Fording's coal operations are achieving the highest productivity levels in Canada compared to other coal operations. Coal Mountain, acquired by Fording in 1994, will add significantly to Fording's coal production this year.

In the Real Estate and Hotels sector, Marathon has been successfully carrying out a well-defined asset rationalization program designed to generate cash for operations and reduce debt. Net proceeds from sales of income properties in 1994 were more than $335 million, bringing the total over the past six years to about $1 billion. The principal focus of Marathon's ongoing operations will be Canada's main urban markets where it is advantageously positioned.

CP Hotels' superior product and high levels of service have made it a leader in the Canadian hotel industry. When an improved economy and low Canadian dollar gave

Management Changes

David O'Brien joined Canadian Pacific Limited as president and chief operating officer in February 1995 following a highly-successful tenure as chief executive officer of PanCanadian Petroleum. Under his leadership, PanCanadian firmly established itself as one of the premier growth companies in the Canadian energy industry.

In March 1995, Rob Ritchie was appointed chief executive officer of CP Rail System. He succeeds Barry Scott who successfully guided the railway through a decade of unprecedented change. Mr. Ritchie brings 25 years of experience with CP Rail System to the task of dealing with a variety of urgent regulatory and operational challenges that will shape the future of the Canadian railway industry.

business travel and tourism a much-needed boost in 1994, CP Hotels was able to achieve higher occupancy levels and room rates, increase its market share and achieve record operating income.

Stage Set for Continued Improvement in 1995

Canadian Pacific is pleased with its performance in 1994 but certainly not satisfied. There is still much more to achieve.

Operating and financial performance can improve in 1995. The North American economy, which helped all the company's businesses last year, is expected to slow somewhat, but overseas economies should be strong. Difficulties will have to be overcome – labour disruptions in the rail industry and uncertain oil and gas prices, for example. Overall, however, the business environment remains conducive to further growth and the company is better positioned operationally, strategically, and financially than it has been for years.

While continuing to move ahead on the downsizing and balance sheet fronts, the ultimate test of the company's strategy is the achievement of bottom line results sufficient to yield excellent returns and superior share valuation.

In this context, repositioning CP Rail System is the major challenge. With the most successful U.S. railroads achieving operating ratios under 80%, it will be impossible for CP Rail System to attain industry leadership on a North American scale until the eastern network is successfully rationalized and the serious problems embedded in the nation's transportation policy are addressed.

In the meantime, CP Rail System will proceed with its own efforts to shape a stronger and more efficient rail network. Achievement of the interim 85% operating ratio goal by 1996 should lead to significant value creation for shareholders.

As always, Canadian Pacific's success will depend on the hard work and loyalty of employees throughout the organization. The Board of Directors wishes to express its appreciation for their efforts.

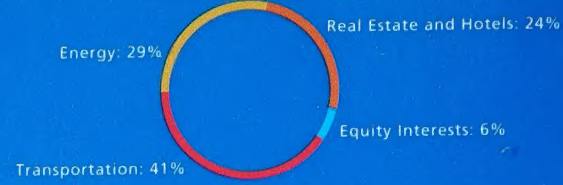
David P. O'Brien

President and
Chief Operating Officer

W.W. Stinson

Chairman and
Chief Executive Officer

Calgary, March 13, 1995



Transportation

CP Rail System

Head Office: Montreal, Quebec

Ownership: 100%

CP Rail System operates the seventh largest railway system in North America, providing rail and intermodal freight transportation to most principal centres in Canada as well as to the midwestern and northeastern U.S., reaching a total population base of more than 150 million people.

Chief sources of revenue are grain, coal, forest products, intermodal traffic, fertilizers, import/export containers and automotive products.

($ in millions)	1994	1993
Revenues	$3,665.1	$3,409.7
Operating income	$ 277.0	$ 244.8
Revenue ton miles (billions)	102.3	93.9
Trackage (miles)	18,700	19,100
Locomotives	1,600	1,600
Freight cars	48,800	48,400
Employees	24,100	24,800

Rail Network

CP Ships

Head Office: Hamilton, Bermuda

Ownership: 100%

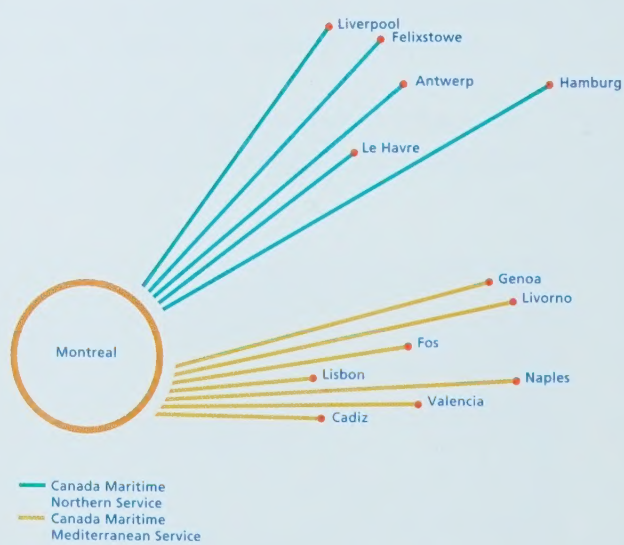
Canada Maritime Limited operates intermodal container shipping services between Montreal and five ports in Northern Europe as well as between Montreal and seven ports in the Mediterranean. Although the North Atlantic trade is highly competitive, Canada Maritime is well positioned as the dominant and lowest cost container carrier in its niche market.

Racine Terminal (Montreal) Limited operates Canada's largest marine container terminal.

($ in millions)	1994	1993
Revenues	$ 561.1	$ 440.7
Operating income	$ 86.0	$ 54.9
Container ships	14	10
Container carryings*	244	197
Employees	600	600

*thousand twenty-foot equivalent container units

Ports-of-Call



Equity Interests

Laidlaw Inc.

Head Office: Burlington, Ontario

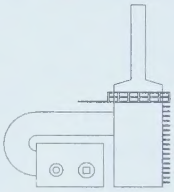
Ownership: 19% (47% voting)

Laidlaw is North America's largest school bus service and hazardous waste management company. It is the second largest provider of healthcare transportation services and ranks third in the management and recycling of household, commercial and industrial wastes.

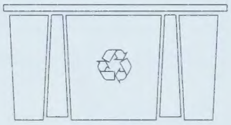
($ in millions)	1994	1993
Equity income (loss)	$ 13.9	$ (79.9)
Service locations	593	528
Employees	40,100	36,900

1994 Segment Revenues

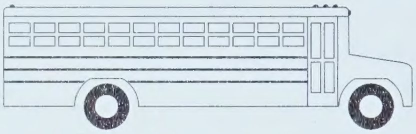
Hazardous Waste: 24%



Solid Waste: 35%



Passenger Services: 41%



Unitel Communications Holdings Inc.

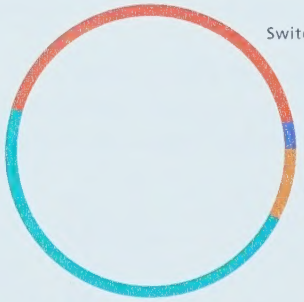
Head Office: Toronto, Ontario

Ownership: 48%

Unitel is Canada's only national facilities-based telecommunications carrier offering business and residential customers a variety of products and services for long-distance voice, data and messaging communications.

($ in millions)	1994	1993
Equity loss	$ (114.8)	$ (283.4)
Employees	3,500	3,200

1994 Product Revenues



THE YEAR IN REVIEW

January–March

- Fording Coal commissioned a second dragline at Genesee.
- Laidlaw monetized its equity investment in ADT Limited by issuing five-year convertible debentures.
- Canada Maritime ordered two new 2,200 TEU container ships.
- NYCO Minerals acquired rights to a large, high-grade wollastonite deposit in northwestern Mexico.
- Canadian Pacific issued 22 million additional Ordinary Shares.

April–June

- CP Rail System completed the enlargement of the Detroit River tunnel.
- Canadian Pacific completed exchangeable term loan and related disposition rights agreements pertaining to United Dominion shares.
- PanCanadian commenced design and engineering of a new natural gas liquids extraction facility in Alberta.
- CP Hotels was awarded the Golden Globe Award for outstanding environmental achievements by the International Institute of Convention Management.
- Canada Maritime introduced a new port-of-call at Liverpool, increased its frequency of service to Antwerp and added three ships to its fleet.
- PanCanadian became Canada's second largest oil and gas producer.

October–December

- Fording Coal acquired the Byron Creek coal mine in B.C., renaming it Coal Mountain.
- CP Rail System furthered its rationalization program in the East by discontinuing operations on the Quebec Central Railway.
- Laidlaw became the largest manager of hazardous waste in North America by acquiring U.S. Pollution Control Industries.
- Soo Line's labour dispute was settled as union members ratified a new collective agreement.
- The Canadian government rejected CP Rail System's bid to acquire CN's eastern rail operations.

July–September

- Canadian Pacific reached an agreement in principle to acquire the container shipping business of the Cast group.
- United Transportation Union members launched a strike at Soo Line. After 47 days, the U.S. president ordered an end to the strike and appointed a Board to make recommendations for a settlement.
- Canadian Pacific sold the remaining operations of CP Trucks in one of the largest employee buy-outs in Canadian history.
- CP Rail System made an offer of $1.4 billion for CN's eastern rail network.

TRANSPORTATION

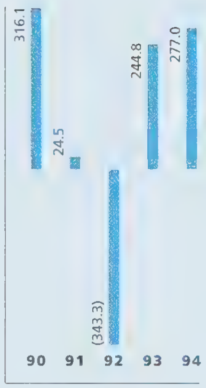
(in millions)	1994	1993	1992
Revenues	$ 4,164.0	$ 3,810.0	$ 3,505.1
Operating income (Loss)	$ 363.0	$ 290.7	$ (125.0)

CP Rail System

In 1994, CP Rail System continued to concentrate on its primary objective of reducing its operating ratio to 85% by 1996. Measures included closing redundant facilities, eliminating low density lines, and operating with fewer people, while at the same time enhancing service quality and attracting new traffic. The railway's operating ratio improved slightly to 92.4% in 1994 from 92.8% in 1993.

A stronger North American economy in 1994 helped CP Rail System's progress by contributing to a 7% increase in revenues and a 9% rise in freight traffic compared with 1993. This, combined with the positive effects of a 2% reduction in expenses per gross ton mile, led to a 13% improvement in operating income. Despite a very harsh winter, the first half of 1994 proved to be quite promising for the railway. However, the second half of the year was marred by a 47-day strike at the railway's Soo Line operations in the U.S., which adversely affected revenues and expenses for several months.

The largest traffic gains were attributable to grain in Canada, intermodal trailers and containers, and potash, while the most significant decrease was in grain traffic in the United States.



Operating Income (Loss)
($ millions)

Traffic Volume

(billion revenue ton miles)	1994	1993	1992	1991	1990
Grain					
Canada	22.6	20.7	22.1	21.4	16.8
U.S.	5.5	7.2	7.3	7.1	7.0
	28.1	27.9	29.4	28.5	23.8
Coal	17.1	15.3	13.1	19.6	19.6
Intermodal and import/export containers	15.2	12.9	11.1	11.0	10.6
Forest products	10.4	10.0	9.3	9.5	9.6
Fertilizers	10.9	9.1	8.0	7.2	7.9
Other	20.6	18.7	18.2	18.4	18.4
Total	102.3	93.9	89.1	94.2	89.9

Bumper crops led to a large increase in shipments of grain in Canada, although congestion in Canadian ports tied up equipment, adding to a tight supply of covered hoppers and locomotives to handle the large demand for grain. The improvement in Canada was offset to a large degree by lower U.S. shipments because of the Soo Line strike.

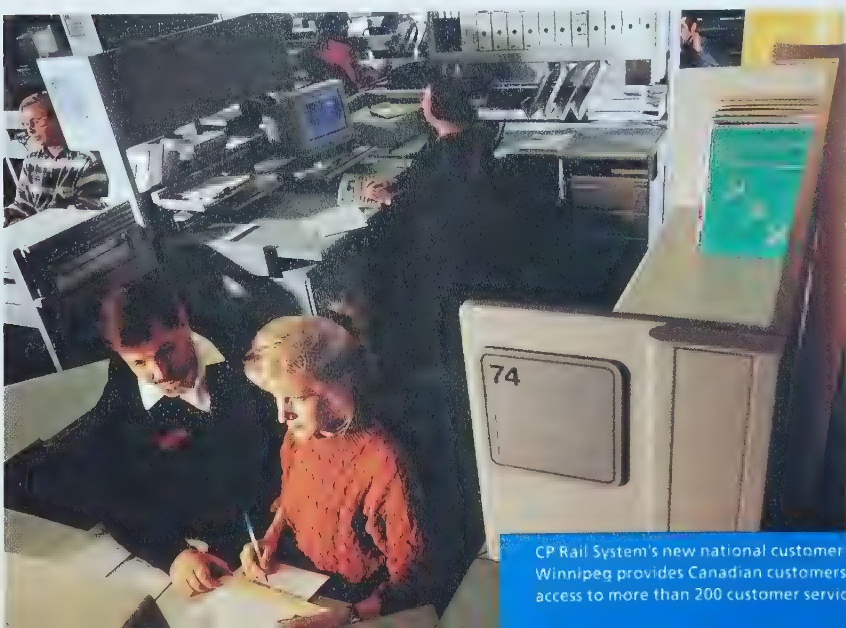
On February 27, 1995, the minister of finance announced in his budget speech the discontinuance of the federal government's "Crow" subsidy for the movement of grain under the Western Grain Transportation Act, along with other proposed changes to the legislative and regulatory regime governing the movement of that traffic. Clearly, this will usher in a period of dynamic change in the grain transportation and handling system. Revenues from this traffic will be affected, but there is also a significant opportunity to introduce greater efficiency and cost savings into the system.

Growth in demand for intermodal services, particularly on CP Rail System's Chicago to the U.S. Northeast service, was attributable mainly to improvement in the North American economy. Shipments of import/export containers increased because of additional volumes through the Port of Montreal, combined with growth in the double-stack service between Vancouver and Chicago as well as from New York to Montreal and Toronto. Increased potash shipments were mainly the result of large purchases of Canadian product by China and higher demand by farmers in the U.S. Midwest to replenish nutrients in the soil washed away by 1993 flooding.

Restructuring Eastern Operations: Top priority for the railway

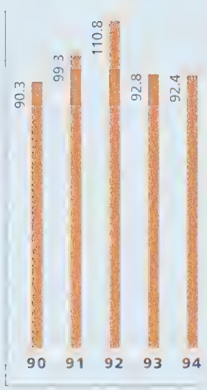
Restructuring its underutilized eastern rail network was CP Rail System's top priority in 1994. Efforts centred around discussions with CN North America in order to deal with the excess capacity as a single integrated system. When negotiations to merge the two railways east of Winnipeg faltered in late July, CP Rail System made a $1.4 billion offer to purchase CN's eastern rail network. In December, the federal government decided not to accept CP Rail System's offer, while indicating at the same time that it plans to take steps in 1995 to restructure rail transportation and to reform railway regulation. There is also a recognition that taxation equity is a necessary element in railway viability.

CP Rail System is encouraged by certain recommendations of the federal government's task force created to study the future of CN. The task force recommended that CN should no longer have a public policy role and should be privatized to focus solely on the business of running a viable freight railway. CP Rail System's support of the privatization of CN rests on a condition that any recapitalization of CN not give it an unfair advantage over CP Rail System. The task force also proposed that Canadian railways be afforded



CP Rail System's new national customer service centre in Winnipeg provides Canadian customers with round-the-clock access to more than 200 customer service representatives

more equitable treatment regarding the taxation of fuel and property as well as the depreciation of plant and equipment. CP Rail System acknowledges the value of the task force's recommendations because they recognize that the status quo in the Canadian rail transportation industry is no longer an option.



Ratio of Operating Expenses to Revenues (%)

Line Rationalization: Continued progress

CP Rail System has been working as aggressively as possible within the confines of current federal regulations to sell or abandon operations over low-density lines in the East.

- In August 1994, the National Transportation Agency approved the sale of the operating assets of the 57-mile Dominion Atlantic Railway in Nova Scotia to a short-line operator.
- In November, CP Rail System discontinued operations on 237 miles of track north of Sherbrooke, Quebec known as the Quebec Central Railway.
- Throughout the year, CP Rail System also sought authorization to abandon 122 miles over several smaller underutilized branch lines such as the 25-mile section between Soulanges, Quebec and Cornwall, Ontario.
- In January 1995, CP Rail System sold 415 miles of rail assets east of Lennoxville, Quebec known as the Canadian Atlantic Railway to two short-line operators.

Labour Relations: A key success factor

Labour disruptions had a significant short term impact on CP Rail System's results in 1994, but the flexible, competitive collective agreement achieved will provide long term benefits. In July, the United Transportation Union, which represents train crews in the U.S., initiated a strike at Soo Line. The strike ended after 47 days when the U.S. president established a Presidential Emergency Board to make recommendations for a settlement. The Board recommended that union members receive wages and benefits comparable to other U.S. Class 1 railroads, but in return gave Soo Line the ability to operate trains with only an engineer and conductor in virtually all its operations. These recommendations became the basis for a negotiated settlement late in 1994. The negative effects of the strike on revenues and expenses lingered beyond the period of work stoppage and were only fully overcome by the end of the year. All U.S. collective agreements have recently expired and negotiations are proceeding.

In Canada, all of CP Rail System's labour contracts expired at the end of 1993 and certain negotiations, conducted throughout 1994, have reached an impasse with two of seven unions. The railway's main objectives are to obtain modifications to employment security and work rules. Currently, about 70% of CP Rail System's employees are eligible for full pay, benefits and wage increases until retirement if they are laid off for reasons other than market conditions. This situation must be modified if the railway is to compete with truckers and U.S. railroads.

Gross Ton Miles per Employee (millions)

Capital Investment: Ensuring quality customer service

In order to take advantage of increasing traffic volumes and to enhance its ability to provide consistent, reliable customer service in the highly competitive transportation marketplace, CP Rail System increased its level of capital investment by 44% in 1994, with the greatest percentage increases being devoted to new equipment.

During the year, CP Rail System acquired 900 new higher-capacity covered hopper cars and plans to add another 1,600 in 1995. The cars are designed to handle a variety of bulk commodities including grain or potash and will increase the overall flexibility of the fleet, allowing the railway to meet seasonal peaks in demand.

CP Rail System is also adding urgently needed capacity to its fleet of 1,200 road locomotives by ordering 80 new-generation locomotives for delivery in 1995. The railway will use the locomotives to haul bulk commodities like coal, grain, potash and sulphur. With the better traction and greater horsepower of the new locomotives, the railway estimates that it will be able to release about 130 existing locomotives for service elsewhere on the network. CP Rail System also ordered 10 rebuilt locomotives expected to enter service in 1995.

CP Rail System's enlargement of the Detroit River Tunnel was completed in early 1994. The upgraded tunnel can now handle larger dimension railway traffic such as tri-level automobile carriers and some double-stack container configurations that previously had to be barged across the Detroit River in a 12-hour process.

Technological Advancement: Adapting to meet competitive challenges

Capitalizing on the growth of intermodal services, CP Rail System entered into a joint-venture with a major U.S. railroad to test market the Iron Highway, a system using new technologies to provide quick, flexible loading and unloading of highway trailers from almost any trackside location. The Iron Highway will provide customers with an intermodal option on short-hauls of 300 to 700 miles, lanes not currently serviced economically by rail.

In another technology development, CP Rail System opened its Crew Management Centre in Montreal. At the end of a two-year consolidation process, the centre will be the railway's single Canadian communications checkpoint calling train and yard crews for service. This one complex will replace almost 30 offices across the country.

Outlook: Continued traffic growth in 1995

Provided there are no lengthy labour disruptions, CP Rail System expects continued revenue growth in 1995, especially from higher grain, coal and intermodal traffic combined with a general firming of freight rates. More efficient operations and new equipment will also help contain costs and contribute to an expected improvement in the operating ratio. The railway also plans to accelerate its capital investment program in order to compete aggressively for market share.

CP Ships

Following outstanding results in 1993, CP Ships made excellent progress in 1994 in an improving competitive and trading environment.

Operating Income (Loss)
($ millions)

Canada Maritime: Increased capacity leads to record year

Canada Maritime responded to increasing trade flows on the North Atlantic in 1994 by expanding capacity. The company added a third route to its Northern Service, introducing Liverpool as a second port-of-call in the U.K. and adding a second weekly call at Antwerp. The company also added four ships to its fleet, two owned, ice-strengthened ships of 1,000 TEUs and two chartered ships of 1,800 TEUs. Despite the expansion, capacity utilization remained high in 1994.

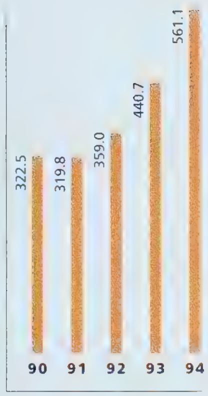
Canada Maritime's container carryings increased 24% in 1994, and an improved competitive environment allowed shipping rates to strengthen. As a result, both the Northern and Mediterranean Services showed better revenues, especially westbound from Europe to Montreal. Canada Maritime also remained the lowest-cost operator on the North Atlantic through its emphasis on cost reductions and increased operational efficiency.

Racine Terminal in Montreal is Canada's largest marine container terminal and the hub of Canada Maritime's North American operations

As part of its ongoing program to improve and modernize its fleet, Canada Maritime has ordered two new 2,200-TEU ice-strengthened replacement ships for the Northern Service. These vessels are being built in Korea and are scheduled for delivery in December 1995. OOCL, Canada Maritime's long-standing partner in the Northern Service, has ordered a similar ship.

In 1994, 1,000 TEUs of new containers were delivered and a further 2,250 TEUs were ordered, both from China.

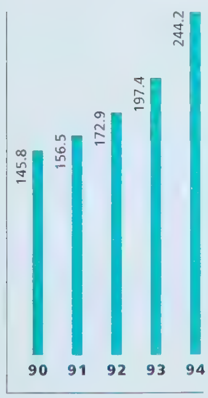
In February 1995, Canada Maritime and its existing Mediterranean Service partner, Jadroplov, were joined by DSR-Senator Lines of Germany in a new joint service employing four 1,800-TEU ships. Ports-of-call have been added at Naples and Fos-Marseille.



Revenues
($ millions)

Cast: Agreement reached to acquire container operations

In 1994, Canadian Pacific reached an agreement in principle to acquire the container shipping business of the Cast group, which operates four chartered ships between its terminal at the Port of Montreal and two ports in Northern Europe. Early in 1995, the proposed acquisition was approved by the Canadian government's National Transportation Agency. Some further Canadian regulatory issues are being tackled.

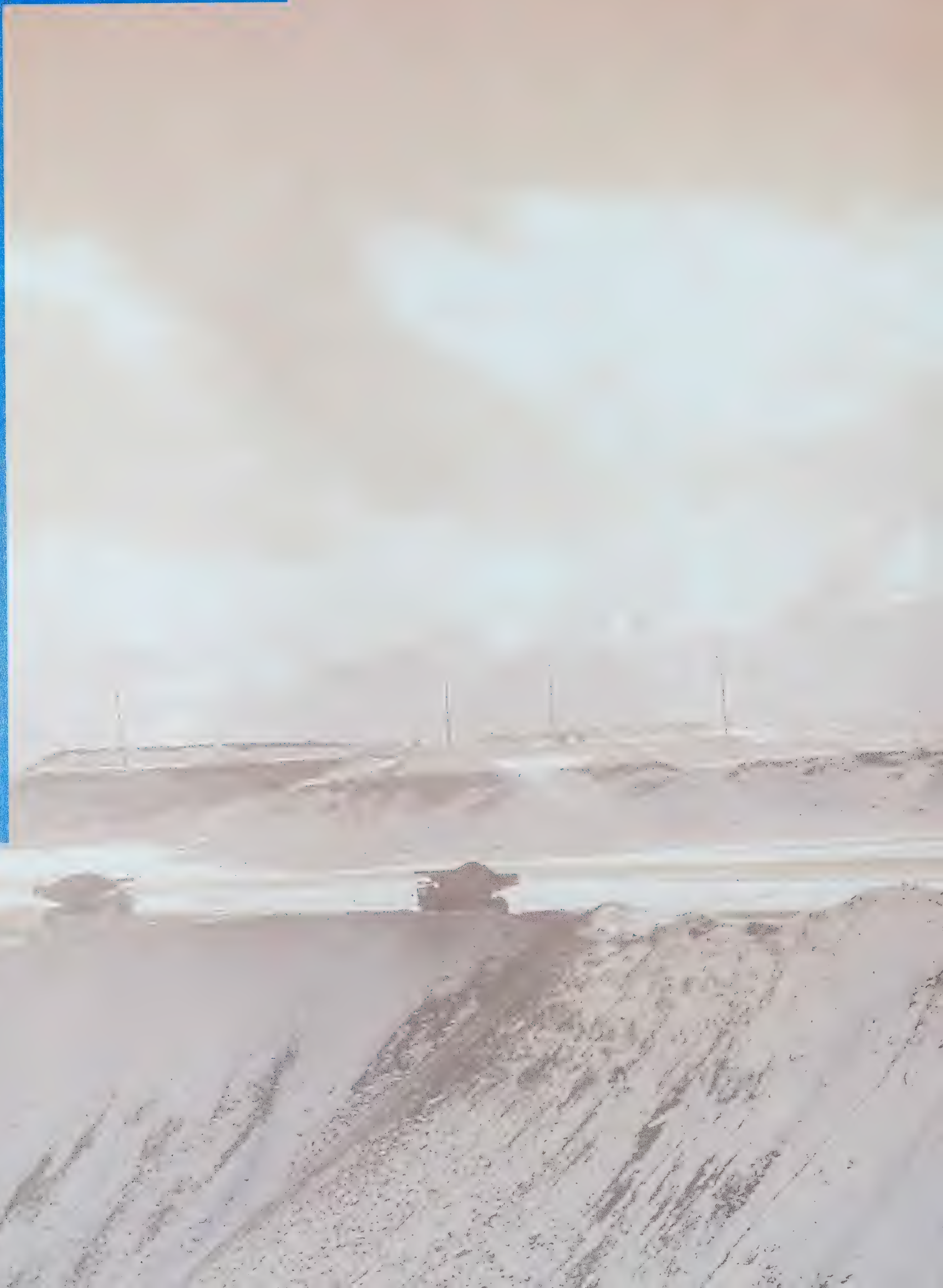


Container Carryings
(000 twenty-foot equivalent container units)

Outlook: Another excellent year in 1995

Buoyed by better market conditions and increased capacity, CP Ships is poised to play an increasingly important role in the North Atlantic trade with Europe. Provided that there are no lengthy labour disruptions at the Port of Montreal, a strong operating performance is expected in 1995.

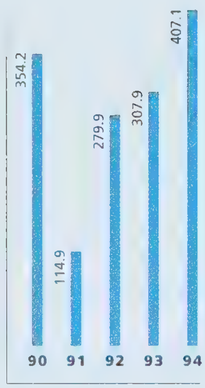
ENERGY



(in millions)	[illegible]	[illegible]	[illegible]
Revenues	$ 2,123.7	$ 1,686.9	$ 1,215.5
Operating Income	$ 505.8	$ 397.9	$ 321.7

PanCanadian Petroleum Limited

1994 marked another year of exceptional performance by PanCanadian. The company's focused strategy of aggressive exploration and development of its extensive land holdings resulted in continued production growth and the highest reserve additions in the industry, translating into excellent financial returns. Revenues in 1994 reached a record $1.5 billion, 31% higher than in 1993. This, combined with cost efficiencies, led to record cash flow and sharply higher income.



Operating Income
($ millions)

Accelerated Activity: PanCanadian becomes the second largest producer in Canada

At over $850 million, PanCanadian's 1994 capital investment program led the industry and was the highest in its history, topping its previous record set in 1993 by 46%. The stepped-up activities contributed to the drilling of 1,129 working interest wells during the year with 87% of the wells proving to be productive, compared with 85% in 1993. The company also held a royalty interest in 925 wells drilled in 1994. The success of PanCanadian's active exploration and development program is evidenced by reserve replacement which was 170% of the high 1994 production volumes. The addition of a record 136 million barrels of oil equivalent to proved reserves in 1994 positioned PanCanadian for solid production performance in 1995 and beyond.

Production of conventional crude oil, which was up 11% over 1993, exceeded a yearly average of 100,000 barrels per day for the first time. Production of natural gas was also at record levels, increasing 7% over 1993 to reach 574 million cubic feet. By the end of 1994, PanCanadian was one of the leading producers of oil and gas in Canada.

Selling prices for PanCanadian's products were also up during 1994. Despite a slightly lower West Texas Intermediate benchmark price for crude oil, PanCanadian's average oil prices improved mainly because of the weakening of the Canadian dollar and the narrowing of price differentials between light and heavy oil. Average prices received for natural gas were up for the year as a whole, but started to weaken in the second half, due to excess supply in the industry followed by unseasonably warm winter weather.

Weighted Average Prices Received

	1994	1993	1992	1991	1990
Conventional crude oil[1,3]	$17.40	$16.34	$18.08	$20.11	$22.60
Synthetic crude oil[1]	21.85	21.23	22.87	22.77	26.74
Field natural gas liquids[1]	12.85	13.99	14.83	15.04	16.82
Natural gas[2,3]	1.95	1.64	1.35	1.40	1.57

(1) per barrel
(2) per thousand cubic feet
(3) includes hedging

Notwithstanding sharply higher production levels, PanCanadian's unit finding and development costs were relatively unchanged from 1993.

Internationally, PanCanadian is continuing its strategy of carefully focused investment in areas providing the greatest opportunity to supplement its reserves and

contribute to future growth. To date, PanCanadian has established a presence in the Netherlands, Russia, Libya and Indonesia.

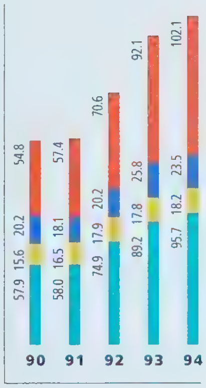
Conventional Oil: Leading-edge drilling techniques

As the western Canadian sedimentary basin matures, PanCanadian must drill a large number of wells in order to explore for smaller pools. These require the application of advanced technologies in seismic and drilling. For example, at certain facilities PanCanadian employs under-balanced drilling operations which use drilling fluids with pressures below that of the formation. This allows reservoir fluids to flow toward the well during drilling and limits damage that can occur in conventional operations. PanCanadian adapted this innovation to horizontal wells, further enhancing productivity.

Natural Gas: Expanded market position

PanCanadian improved and diversified its natural gas market position in 1994 by acquiring additional export pipeline capacity and entering new markets. The company increased the portion of its natural gas production that it markets directly from 13% in 1992 to 42% in 1994. PanCanadian also pursued alternative markets for its natural gas, including cogeneration facilities which use natural gas to create electricity.

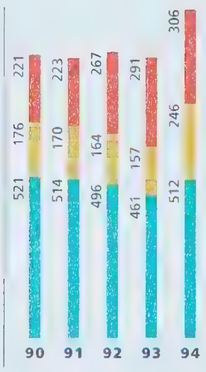
In addition, PanCanadian developed and implemented a leading-edge supply management information system, which has allowed it to monitor most of its natural gas production instantaneously and improve the reliability of its supply projections and deliveries. This, combined with PanCanadian's substantial reserves base, has enabled the company to position itself as a dependable supplier of natural gas and to increase its market share.



Average Daily Production
(000 barrels of oil equivalent, after royalty)

- Natural Gas
- Synthetic Crude Oil
- Natural Gas Liquids (including Empress)
- Conventional Crude Oil

Free water knockout vessel removes water from oil pumped by 670 wells to the central treating plant at PanCanadian's Weyburn, Saskatchewan unit



Total Reserves
(million barrels of oil equivalent, after royalty)

- Natural Gas
- Synthetic Crude Oil
- Conventional Crude Oil & Natural Gas Liquids

Natural Gas Liquids: Value-added production

PanCanadian is expanding its natural gas liquids business by participating, at a 45% interest, in the construction of a major liquids extraction facility in Empress, Alberta. Having a design capacity to produce up to 8,000 barrels per day from a natural gas stream of approximately 800 million cubic feet of natural gas per day, the plant is scheduled to be operational in 1996. This investment will increase PanCanadian's supply of natural gas liquids and will strengthen its market position by allowing it to remove and sell the higher-value components from natural gas production.

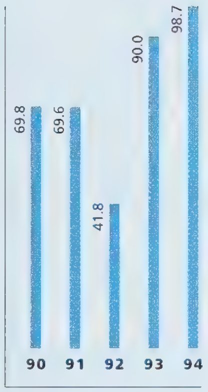
Outlook: Excellent year ahead

Provided natural gas prices do not continue to drop substantially, 1995 promises to be another excellent year for PanCanadian. The 1995 capital program and drilling activity are expected to match or exceed 1994 levels, contributing to further growth in reserves. As a result, natural gas and conventional oil production volumes are expected to increase in 1995. Revenue resulting from this production growth should more than offset the effect of current low natural gas prices. Should the market price for natural gas deteriorate further, additional volumes which are not contracted for sale early in 1995 may remain unproduced until prices improve. PanCanadian's efforts to control operating expenses and increase production volumes are expected to reduce unit costs in 1995.

Driller monitors operation of slant rig at PanCanadian site in Alberta.

Fording Coal

Fording Coal's strategic initiatives of the past few years to expand and diversify its operations yielded excellent results in 1994. The company's Fording River coal mine in British Columbia posted record sales, production and productivity, and the Genesee operation in Alberta more than doubled its coal production.



Operating Income
($ millions)

Fording River: New mining equipment leads to record productivity

Fording Coal's program of replacing coal mining equipment at Fording River with larger, more efficient units continued in 1994, with most aspects of the operation surpassing records set in 1993. Total mine production increased 2%, topping 60 million bank cubic metres for the first time. Mine productivity, as measured in metric tons per eight-hour shift, increased 17%. Record plant production, up 6%, was especially remarkable in that it was attained within fewer operating hours. The processing plant produced 22% more cleaned coal per eight-hour shift, resulting in a 7% improvement in the cost per metric ton of cleaned coal produced. Finally, sales volume was up 2% as Fording Coal was successful in tapping new markets. These achievements, together with the lower value of the Canadian dollar, helped Fording Coal compensate for the adverse effects of a further decline in coal selling prices.

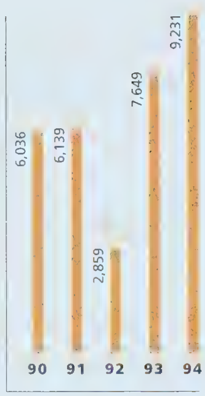
The principal focus at Fording River in 1995 will be to continue to improve productivity through equipment replacement, modification of the coal processing plant to improve quality and yield, and research to develop new technologies.

Greenhills: The first full year of production

The Greenhills coal mine, adjoining Fording River, completed its first full year of operations in 1994 under Fording Coal's 80% ownership. The mine produced its maximum capacity of 3.1 million metric tons of cleaned coal and sold more than twice the volumes of the previous year. Mining productivity increased 41% over 1993, reaching an annual level never before seen at a Canadian metallurgical coal mine.

A major expansion program is under way at Greenhills which will increase its productive capacity to 4.5 million metric tons per year. Prestripping of a new mining area and purchase of additional mining and support equipment began in the last quarter of 1994 and will be completed by mid-1995. The processing plant is also being expanded to accommodate the higher volume of coal.

Fording River and Greenhills derived significant synergistic benefits from their close proximity. Substantial blending of coals from the two operations was carried out in 1994. The wider variety of coals provided more flexibility to meet the specifications of existing customers and to attract new ones.



Coal Sales Volume*
(000 metric tons of cleaned coal)

*British Columbia operations

Coal Sales Volume by Area*

(%)	1994	1993	1992	1991	1990
Japan	27	29	32	36	29
Korea	24	36	21	15	18
Europe	18	8	21	17	10
North America	12	8	6	5	17
South America	5	5	9	9	8
Other	14	14	11	18	18

* British Columbia operations

Coal Mountain: New coal reserves

Fording Coal reinforced its operations and reserves with the purchase in October 1994 of the Byron Creek coal mine in southeastern B.C. from Corbin Creek Resources. The mine, operating under its new name of Coal Mountain, began mining and processing coal in November. It produces coal used in pulverized coal injection processes as well as weak coking coal and thermal coal for export, and is estimated to have an annual capacity of 1.5 million metric tons. Plans are to increase its capacity to 2.5 million metric tons in 1995 by purchasing larger mining equipment.

Alberta Operations: Genesee doubles production

Fording Coal's Genesee joint venture with Edmonton Power mined over 3.3 million metric tons of coal in 1994, compared with 1.5 million metric tons in the previous year. The increase was attributable to a second dragline which began supplying coal to a new generating unit at the Genesee power plant in January 1994. Resulting economies of scale allowed unit production costs to drop 35%.

As for its other mining operations in Alberta, Fording Coal produced 2.8 million metric tons of thermal coal in 1994 for delivery under contract to TransAlta Utilities. The company recently renewed this contract to the year 2000. Mildred Lake operations moved 12.1 million cubic metres of overburden in northeastern Alberta for Syncrude Canada Ltd.

NYCO Minerals: Growth through strategic acquisitions and R&D

In early 1994, NYCO acquired important new wollastonite reserves in northwestern Mexico. Surveying, drilling and sampling activities have indicated a large body of ore. In 1995, evaluation of the reserves will continue in conjunction with economic feasibility and operational design studies.

NYCO completed 1994 with a 21% increase in the production volume of wollastonite products and sales volume was up 18%. However, intense competition in U.S. and overseas markets had a negative effect on some selling prices, which NYCO countered by controlling costs. During the year, the company continued to invest in research and development of new products and applications for wollastonite and tripoli. These R&D projects will be pursued in 1995.

Productivity*
(metric tons of cleaned metallurgical coal per employee per 8-hour shift)

*Fording River

Outlook: Another strong performance in 1995

Fording Coal's outlook for 1995 indicates continued strength in its operating results. The company will maintain its focus on cost competitiveness, sustained profitability and growth, as well as continued diversification into areas of proven expertise. Higher export sales are expected as a result of ongoing marketing efforts in non-traditional markets. Price and volume negotiations with the Japanese steel mills are proceeding and, while no agreement has been reached, Fording is confident that the benchmark price will increase for the first time in five years.

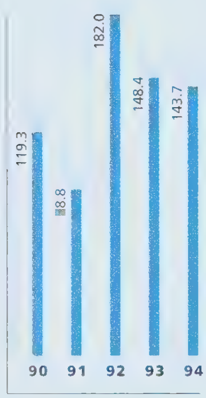
Coal mining at Genesee Operations in Alberta where production doubled in 1994 following the installation of a second dragline.

REAL ESTATE AND HOTELS

[illegible]	1994	1993	1992
Revenues	$ 1,003.0	$ 1,008.4	$ 969.0
Operating Income	$ 245.1	$ 234.0	$ 253.2

Marathon Realty Holdings Inc.

In weathering continued industry difficulties, Marathon has consistently adhered to its main strategies of asset rationalization and debt reduction. Its operating income in 1994 declined only slightly due to marginally lower rental income and greater asset write-downs, partially offset by increased gains on the sale of income properties and measures to control costs.



Operating Income
($ millions)

Asset Sales: Enhancing liquidity and reducing debt

Marathon continued its policy of pursuing joint-venture partners to share in the ownership of strategic assets. This not only limits Marathon's operating risk, but it also provides the company with property management income and cash to reduce debt. Marathon has also been strengthening its income property base by disposing of assets with limited growth potential and by concentrating on main urban markets where it has strong competitive advantages.

During the past year Marathon sold a 50% interest in its largest shopping centre, Place Laurier, a 1.3 million square foot regional mall located in Ste. Foy, Quebec. Marathon retained management of the property. The company was also successful in disposing of its interests in several non-strategic assets in 1994: two office buildings, three shopping centres, a hotel (to CP Hotels), aviation facilities and two development sites. Proceeds from asset sales were used to repay debt and contributed to the 12% reduction in debt levels during 1994.

Office Buildings: A successful leasing program

Following years of declining rental rates and escalating vacancy levels, the office sector of the North American real estate market began to show signs in 1994 of a gradual recovery. Limited new construction, less available sublet space as corporate downsizings diminished, and increasing demand for rental space spurred by the economic recovery, all combined to start the slow reversal of the massive supply/demand imbalance of the past few years.

Thanks to improving industry conditions and its successful leasing strategy, Marathon was able to increase operating profit in its office buildings by raising occupancy levels four percentage points during 1994. Under its leasing strategy, Marathon redoubled its efforts to cultivate relationships with existing tenants, to aggressively solicit prospective tenants, to maintain the highest quality office space, and to encourage employees at all levels to be more service oriented.

Leasing Activity

(000 square feet)	Office Buildings 1994	Office Buildings 1993	Canadian Shopping Centres 1994	Canadian Shopping Centres 1993	U.S. Shopping Centres 1994	U.S. Shopping Centres 1993
Lease renewals*	319	455	260	228	50	22
New leases*	571	443	205	177	201	297
Vacant space at December 31	824	1,186	287	265	338	311
% of total leasable space	11.4%	15.3%	8.5%	6.0%	9.4%	8.2%

* Properties in operation for all of 1994 and 1993

Revenues
($ millions)

In addition to its leasing successes, Marathon began managing a project awarded in 1993 to double the capacity of the Metro Toronto Convention Centre. This contract not only provides Marathon with management fee income, but will also lead to the completion of a large portion of the infrastructure in and around the company's strategic Southtown lands.

Shopping Centres: Continued pressure on occupancy levels

The Canadian retail sector has had to cope in recent years with low consumer demand and a shift in buying patterns towards more value shopping. Mall owners felt the impact through an overabundance of vacant space and pressure to reduce rental rates.

The 1,000,000-square-foot Vista Ridge Mall near Dallas, Texas is a dominant regional shopping centre in a strong growth market

Leasable Area*
(million square feet)

*Includes wholly and partially-owned properties

- Office Buildings
- Shopping Centres
- Industrial & Other

At Marathon, lower occupancy levels in its Canadian shopping centres in 1994 were essentially offset by reduced payments for tenant inducements. Group operating profit declined mainly as a result of the sale of certain assets since rental rates remained relatively unchanged from 1993. Throughout 1994, Marathon continued to lead the Canadian industry in design, renovation and promotional work by winning more awards than any other mall owner or manager for the second consecutive year.

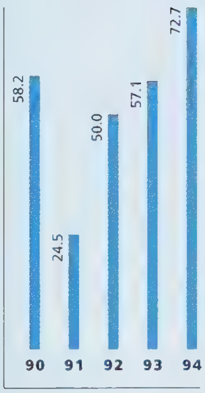
As for its U.S. shopping centres, Marathon reported improvement in both revenues and operating profit in 1994, derived from a combination of higher rental rates and the benefit of a weaker Canadian dollar. These positive factors were partially offset, however, by a higher number of tenant closures which lowered the occupancy level. Many of these closures were initiated by the proactive efforts of management to enhance the merchandizing of several properties as part of Marathon's ongoing leasing strategies.

Outlook: Modest improvement in real estate markets

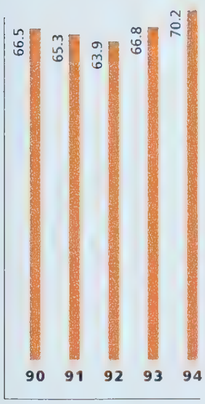
Although Marathon expects 1995 to be another challenging year, the company is encouraged by the current relative strength of both the U.S. and Canadian economies. Rental rates, particularly in the office sector, should increase and the retail sector should benefit from higher consumer spending. Taking advantage of an expected modest firming of property values in 1995, Marathon plans to continue its program of selling certain assets and to apply the proceeds to debt reduction.

Canadian Pacific Hotels & Resorts Inc.

Following its strategy of providing only the highest quality product, CP Hotels had a very successful 1994. Occupancy levels rose more than three percentage points, average room rates increased over 3% and operating profit margins strengthened. These achievements reflected mainly better economic conditions and the effects of the lower Canadian dollar, which not only made Canada a more attractive destination for foreigners, but also encouraged Canadians to spend their vacations in Canada. In addition, enhanced facilities and services resulted in increased market share at most of CP Hotels' business and resort properties, and there were substantial benefits from various cost control programs introduced in recent years.



Operating Income
($ millions)



Average Occupancy Rates*
(%)

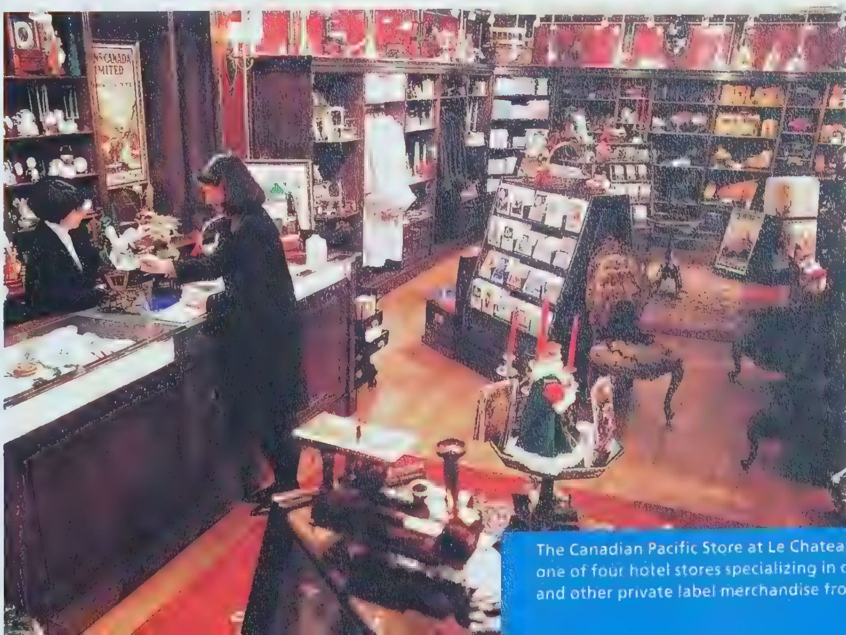
*Canadian owned hotels

Total Quality Service: The highest level of hospitality

With its focus on improving revenues and productivity, CP Hotels' Total Quality Service team has been concentrating on areas relating to food and beverage services, technology, and yield management. Task forces were established in 1994 to streamline procedures, further improve operating efficiency, and maximize revenue per available room. In May, CP Hotels launched *Canadian Pacific Club*, a program of special privileges designed to enhance customer loyalty through efficient and personalized services for frequent guests. CP Hotels will continue to emphasize customer service by establishing a consistent guest service index, customer advisory boards and regular focus groups.

The Portfolio of Hotels: Second to none in Canada

During 1994, ownership of Marathon's Waterfront Centre Hotel in Vancouver was transferred to CP Hotels. This modern, four-star facility, which was already being managed by CP Hotels, is a welcome addition to its stable of high quality properties. The Chateau



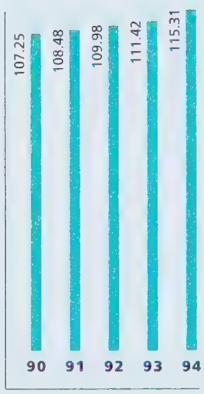
The Canadian Pacific Store at Le Chateau Frontenac is one of four hotel stores specializing in company memorabilia and other private label merchandise from bygone times.

Laurier in Ottawa and the Hotel Vancouver will be fully restored in 1995 and construction of a spa at the Banff Springs Hotel will be complete, capping a highly successful renovation program initiated in 1987.

In December 1994, CP Hotels signed a letter of intent with Intrawest, agreeing to participate in the development and management of a 300-room resort hotel and conference centre at Mont Tremblant, Quebec. Construction is planned to start in the spring of 1995 and be completed in time for the ski season of 1996-1997.

CP Hotels has also proposed a further development of its mountain resorts in Banff and Jasper national parks. The proposals, while enhancing the competitive position of the properties, also take into account the company's obligation to operate responsibly in such ecologically sensitive areas.

CP Hotels recently reached an agreement in principle to sell the Chateau Champlain in Montreal to a group of investors. This disposition will allow CP Hotels to concentrate on improving the profitability of its other Montreal hotel, the Queen Elizabeth.



Average Room Rates*
($)

*Canadian owned hotels

U.S. Operations: Doubletree goes public

CP Hotels' equity interest in Phoenix-based Doubletree Corporation, which manages over 100 hotels throughout the U.S., declined from 32.0% to 26.2% in July 1994 following the completion of an initial public offering of shares by Doubletree on the Nasdaq National Market.

Outlook: Strong demand and increased profits

CP Hotels expects the North American economy to continue to improve in 1995 and the Canadian dollar to remain low. The resulting strong demand for hotel rooms, coupled with the virtual absence of new hotel construction, should provide for a substantial increase in revenue per available room and higher occupancy. CP Hotels is well positioned to capitalize on future industry growth through its superior quality product and its reputation for excellent customer service. The main thrust of the company's efforts in 1995 will be to maximize the revenue yield per available room through more aggressive pricing and fewer discounts. CP Hotels will also continue to emphasize productivity and operating efficiencies to keep costs under control.

EQUITY INTERESTS

Laidlaw Inc.

Laidlaw made significant progress in 1994 to restructure its operations and refocus on its core North American businesses, consisting of passenger transportation as well as solid and hazardous waste management services.

Addressing its non-core interests, Laidlaw monetized its equity investment in ADT Limited – a Bermuda-based company engaged primarily in electronic security services – by issuing ADT-linked five-year convertible debentures. In addition, Laidlaw sold its equity interest in Attwoods plc., a British company providing solid waste services in the U.S., U.K. and Germany. Laidlaw also sold its other major European operations, including an Italian waste water treatment business.

Passenger Services: A year of rapid growth

Laidlaw's passenger services had a very active year with revenue growing by more than 18%, mostly on the strength of the acquisition of 19 healthcare transportation companies. Laidlaw's student and municipal transit sector also expanded in 1994, through 13 acquisitions and 14 new contracts with public school bus systems.

Early in 1995, Laidlaw agreed to acquire the school bus and transit operations of U.S.-based Mayflower Group. The deal is expected to add US$250 million to Laidlaw's passenger services revenue, bringing annual revenues for the sector to more than US$1 billion.

Solid Waste Services: Benefiting from restructuring

Laidlaw carried out a major restructuring of its solid waste services in late 1993 and early 1994, exiting from markets in which the company was poorly positioned with little prospect for improvement. This initiative helped increase the operating profit margin for the solid waste sector to 11.2% in 1994 from 8.0% in 1993, thereby halting a downward trend in Laidlaw's overall operating profit margin. Laidlaw's solid waste services also achieved better productivity and benefited from stronger market conditions in the United States. Although the Canadian market was disappointing for most of 1994, it stabilized in the latter half of the year – a good sign for 1995 when Laidlaw plans a stepped-up acquisition program and expansion of its key operations.

Hazardous Waste Services: No. 1 in North America

In December 1994, Laidlaw purchased U.S. Pollution Control Industries, a major hazardous waste services company in the United States. This acquisition is expected to raise annual revenue from Laidlaw's hazardous waste services to US$800 million, making it the largest hazardous waste business in North America.

Laidlaw's hazardous waste services sector performed well in most markets in 1994, despite a challenging marketplace affected by reduced volumes, aggressive pricing and little progress on U.S. federally-funded clean-up projects.

Outlook: Continued improvement in 1995

Laidlaw plans to continue expanding its core North American businesses in 1995. This, combined with its cost control programs and improving market conditions in Canada and the U.S., should deliver better operating margins in all of Laidlaw's business sectors.

Unitel Communications Holdings Inc.

1994 was another difficult year for all participants in the Canadian long-distance telephone business. Although demand for long-distance telephone service in Canada grew by 10% in 1994, sharp rate reductions initiated by the regional telephone companies forced competitors to follow suit, seriously limiting industry revenue growth. Despite the fierce competition, Unitel's revenues from switched services increased 88% in 1994, reflecting the launch of new products and increased market share, especially in the residential segment. However, Unitel's revenue growth was outweighed by increased marketing and systems costs associated with the new products and by higher payments to the regional telephone companies to access their local networks.

New Ownership Structure: Better access to telecommunications technologies

Unitel's three shareholders – Canadian Pacific (48.0%), Rogers Communications Inc. (29.5%) and AT&T Corp. (22.5%) – amended their shareholders' agreement early in 1995 which, among other things, granted Rogers an option to purchase Canadian Pacific's interest in Unitel by April 28, 1995. If Rogers does not exercise its option by this date, each shareholder will have the right to sell its Unitel shares, subject to rights of first refusal of the other two shareholders.

In addition to fitting in with Canadian Pacific's refocusing efforts, the sale would respond to the increasing convergence of telecommunications technologies and the need for vibrant competitors in the Canadian market. A closer relationship with its two strong telecommunications partners, Rogers and AT&T, would enable Unitel to develop better access to the state-of-the-art technologies these companies can provide.

Between now and April 28th, Unitel will continue to strive to improve its competitive position through corporate restructuring and cost reductions. Also, since significant regulatory changes are required if Canadians are to continue to benefit from competitive long-distance services, the period will allow Unitel and its shareholders time to fully develop their concerns about Canada's regulatory environment prior to formal CRTC hearings commencing in May 1995.

Commitment to the Environment

Canadian Pacific continues to communicate its commitment to protection of the environment. Its commitment is affirmed in the Corporation's *Code of Business Conduct* which states:

The Corporation and its employees shall treat the protection of the environment as an integral factor in all decision-making.

Regular reports on environmental stewardship are submitted to the Corporation's Environmental and Safety Committee. The Committee consists of six members of the Board of Directors who consider and make recommendations to the Board regarding environmental and safety issues affecting Canadian Pacific. Internal newspapers also advise employees and other stakeholders of environmental programs.

All of our businesses have ongoing programs ranging from employee training and waste minimization to land reclamation and reduction of emissions into the environment from operations.

Compliance with complex environmental regulations in the regions in which the businesses operate is an integral part of the environmental management systems which are tailored to the requirements of the particular operations. Compliance audits are routinely undertaken. Corrective actions are recommended and subsequent follow-ups monitor timely implementation.

Audits of facilities and systems by external consultants provide valuable independent appraisal and increase the environmental awareness and expertise of operating personnel.

CP Rail System: A comprehensive program of environmental protection

CP Rail System has continued to implement its *Environmental Protection Policy,* which was first adopted in 1990. Most of the railway's major facilities and sites have been assessed, with remedial actions undertaken as required. These activities, along with an increased environmental staff presence across the railway, have contributed to a heightened awareness of environmental issues and ready acceptance of environmental management as a key component to business decisions.

A thorough review of CP Rail System's environmental procedures was carried out in 1994. Training modules were developed to help in the proper disposal of used batteries and asbestos as well as in the replacement of ozone depleting substances.

CP Rail System supports current efforts to harmonize federal and provincial environmental regulations. Any effort to reduce regulatory complexity is fully supported. The railway continues to actively monitor drafts of new legislation and legislative reviews to assess their impact on rail operations.

PanCanadian: New technological developments to protect the environment

PanCanadian places a high priority on conducting business without adversely affecting the natural environment. The company has had full-time staff dedicated to environmental impact issues for the last 20 years. Training is mandatory for all operating employees and formal assessments of the company's operations are conducted regularly.

PanCanadian takes full advantage of new technological developments to minimize the environmental impact of its operations, such as

- improved instrumentation and communications technology which can instantly detect spills or emissions as well as lower the response time of repair crews;
- sumpless drilling technology which reduces drilling waste and minimizes the area used at well sites;
- pad drilling which allows several wells to be drilled from one site, reducing the area of land disturbed;
- vapour recovery systems which collect storage tank gases that would otherwise be vented into the atmosphere.

PanCanadian has accepted the challenge of the federal government to reduce greenhouse gas emissions. A task force of senior technical personnel has been established to determine PanCanadian's current level of greenhouse gas emissions and to develop specific action plans to reduce emissions on a unit of production basis.

Fording Coal: Reclaiming mined land – a sustainable process

Environmental responsibility continues to be an important priority for Fording Coal, as an integral part of its business activities. Extensive environmental monitoring and mitigation programs help ensure that mining activity has minimal effect on the surrounding natural environment. Through extensive reclamation efforts at each of its operations, mined land is returned to productive and environmentally-sustainable uses. Fording's reclaimed land now serves as farmland, wildlife habitat, forests and wetlands.

Marathon: Fostering environmental protection

Marathon is vigilant in monitoring the environmental impact of its business activities and those of its tenants. The company's *Environmental Management Program* has been in place since 1991. This program provides for employee and tenant awareness through training seminars, video presentations and newsletters; site assessment; legislative monitoring; and regular reporting to senior management and the Board of Directors. Marathon continues to pursue energy conservation and recycling initiatives as part of its commitment to ensure that its operations are conducted in a manner that fosters environmental protection.

CP Hotels: An award-winning environmental program

CP Hotels' innovative environmental initiative is widely recognized for its leading role in the hotel, travel and tourism industry. Its *Green Partnership Guide* continues to be in great demand by hotels and hotel schools around the world.

A financial audit of the company's *Green Program,* intended to ascertain the costs and benefits associated with its environmental initiatives, revealed substantial bottom-line savings. For example, recycling and other waste reduction efforts have reduced annual waste removal costs chain-wide by more than $250,000.

During 1994, CP Hotels was awarded the Golden Globe Award for outstanding environmental achievements by the International Institute of Convention Management in Washington D.C. CP Hotels' environmental program also received a Golden Bell Award from the Hospitality Sales and Marketing Association International in New York City.

Laidlaw: A commitment to responsible environmental protection

Laidlaw is committed to managing its businesses to an environmental standard which surpasses its legal responsibility. Some 78 professional and technical staff are responsible for running the company's multi-faceted environmental management programs. These programs test the integrity of facilities, sites and processes by auditing and comparing them against legislated and internally developed standards. Any deficiencies are documented, remedial actions are designed and their implementation is tracked. Regular progress reports to senior management and quarterly updates to the Board of Directors assure continuous improvement.

Laidlaw has an enviable record of developing innovative programs to protect the environment. For example, Laidlaw has recently developed partnerships with companies such as Pitney Bowes to recycle more than 95% of components from out-dated office equipment. Another innovative service, WasteAuditor, helps customers comply with increasingly stringent environmental regulations by tracking waste streams to their source, analyzing their content and providing prescriptions for volume reduction, reuse and recycling.

Management's Responsibility for Financial Reporting

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal audit department reviews these accounting controls on an ongoing basis and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of four members, all of whom are outside directors. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

Executive Vice-President and
Chief Financial Officer

W. W. Atkinson

Chairman and
Chief Executive Officer

March 10, 1995

This Management's Discussion and Analysis for Canadian Pacific Limited (the Corporation) and all of its businesses is supplemental to the consolidated financial statements and related notes contained in this report. Readers should refer to the Letter to Shareholders and Review of Operations sections of this report for a more complete understanding of the Corporation.

The financial statements were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Differences from GAAP in the U.S. are disclosed in note 24 on page 71 of this report.

Overview

After three consecutive years of losses, the Corporation returned to profitability in 1994. Debt levels were also further reduced and shareholders' equity increased, resulting in continued improvement in the long term debt:equity ratio. Cash levels remained at healthy levels and are sufficient to satisfy the Corporation's current liquidity needs as well as liquidity needs in the foreseeable future.

The Corporation has essentially completed a major restructuring program begun several years ago. The program was intensified in recent years in order to sharpen the focus of business activities and to improve productivity and competitiveness. Under the program, non-core assets were sold, certain facilities were closed, the workforce was reduced and asset write-downs were incurred. Measures to strengthen the competitive positions of the Corporation's businesses included: PanCanadian Petroleum Limited's (PanCanadian) aggressive exploration and development program; CP Rail System's rail line rationalization and workforce reduction program; CP Ships Inc.'s (CP Ships) expansion of its North Atlantic container services through additional capacity and vessels and proposed acquisition of the Cast group's operations in the Port of Montreal; Fording Coal Holdings Inc.'s (Fording Coal) expansion and coal diversification program; Marathon Realty Holdings Inc.'s (Marathon) generation of cash and reduction of debt through the sale of non-strategic assets and shared ownership of certain strategic properties; and Canadian Pacific Hotels & Resorts Inc.'s (CP Hotels) extensive restoration and modernization of its properties to capture greater market share in the hotel industry.

Financial Performance

Consolidated net income amounted to $393.1 million in 1994, compared with losses of $190.6 million in 1993 and $478.3 million in 1992. On a per Ordinary Share basis, income of $1.16 in 1994 compared with losses of $0.60 in 1993 and $1.50 in 1992. Per share figures are based on a weighted average number of Ordinary Shares outstanding of 337.5 million in 1994, 319.2 million in 1993 and 318.8 million in 1992. The increase in shares outstanding in 1994 reflected the Corporation's public issue in March 1994 of 22 million Ordinary Shares.

Discontinued Operations

Included in consolidated results were losses from discontinued operations amounting to $16.7 million in 1994, $180.8 million in 1993 and $282.7 million in 1992. The loss in 1994 represented losses in respect of the operations of Canadian Pacific Express & Transport Limited (CP Trucks) and a $2.5 million loss on its sale to its employees in September 1994. The loss in 1993 consisted of a $99.6 million loss on the sale that year of the Corporation's 60.7% investment in Avenor Inc. (Avenor) (formerly known as Canadian Pacific Forest Products Limited), a loss of $63.4 million representing the Corporation's share of that company's losses prior to the sale, and a loss of $17.8 million from CP Trucks. The loss in 1992 consisted of $177.1 million from Avenor and $105.6 million from CP Trucks.

Continuing Operations

Income from continuing operations of $409.8 million, or $1.21 per Ordinary Share, in 1994 was an improvement over losses of $9.8 million, or $0.03 per share, in 1993 and $195.6 million, or $0.61 per share, in 1992. The losses in 1992 and 1993 reflected generally depressed economic conditions and special charges, while the turnaround in 1994 was due largely to the absence of special charges and to improving economic conditions.

Following is a summary of significant special items included in income during the last three years.

1994

- There was a net gain of $87.9 million arising from an exchangeable term loan agreement and related disposition rights agreement pertaining to 6,254,000 United Dominion Industries Limited (United Dominion) shares held by the Corporation, with a net book value of $65.7 million. Gross proceeds amounted to $211.1 million, and after deducting the disposition rights cost of $43.8 million, and interest and fees totalling $24.9 million, the net gain before a taxable benefit of $11.2 million (on the cost of interest expense and fees) amounted to $76.7 million.
- Marathon provided for a write-down of $29.7 million ($43.1 million at the operating income level) to reflect the difference between book value and net realizable value of non-strategic assets held for sale and of development properties.

1993

- There was a net gain of $28.5 million on the sale of United Dominion Share Appreciation Rights. In 1993, the Corporation entered into an agreement providing for the issuance and sale of appreciation rights related to the Corporation's residual interest in 10 million shares of United Dominion which were subject to the exchange provisions of the three-year Equity Exchangeable Debentures issued in December 1992. The agreement provided for the sale of 105,000 special warrants at an issue price of $285.71 per special warrant for total proceeds of $30 million less costs totalling $1.5 million.
- Unitel Communications Holdings Inc. (Unitel) provided for special charges, amounting to $155.6 million at the Corporation's level, to write down the value of equipment made obsolete due to a major network reorganization and to cover the cost of staff reductions. In addition, there was a write-down of capitalized costs in Unitel's consumer division amounting to $47.7 million at the Corporation's level.
- Laidlaw Inc. (Laidlaw) wrote down the carrying value of its equity investments in Attwoods plc. and ADT Limited and incurred write-downs and restructuring charges in respect of its waste management operations. These special charges totalled $97.6 million at the Corporation's level after tax.
- Marathon provided for a write-down of $21.3 million ($37.3 million at the operating income level) on the book value to net realizable value of certain non-strategic assets.

1992

- CP Rail System incurred charges totalling $291.6 million after tax ($453.6 million at the operating income level) relating to the cost of a phased reduction in train crew sizes, rationalization of certain rail lines in eastern Canada and employment reductions.
- Marathon wrote down the value of certain non-strategic assets by $22.5 million after tax ($28.3 million at the operating income level).
- The Corporation wrote down its investment in United Dominion by $53.4 million after tax ($72.2 million before tax) to net realizable value as determined by the conversion price set in the Equity Exchangeable Debentures issued in December 1992.

1994 Performance Compared with 1993

(in millions)	1994	1993	Increase/ (Decrease)
Revenues	$ 7,053.4	$ 6,336.8	$ 716.6
Operating income	1,113.9	931.6	182.3
Interest expense, net	403.1	483.9	(80.8)
Other expenses (income)	(9.4)	8.0	(17.4)
Income before taxes, minority interest and equity in income	720.2	439.7	280.5
Income taxes	169.9	52.9	117.0
Minority interest	39.6	33.3	6.3
Equity in loss of Unitel	(114.8)	(283.4)	168.6
Equity in income (loss) of Laidlaw	13.9	(79.9)	93.8
Income (loss) from continuing operations	$ 409.8	$ (9.8)	$ 419.6
Per Ordinary Share – continuing operations	$ 1.21	$ (0.03)	$ 1.24

The improvement in income from continuing operations in 1994 compared with 1993 reflected mainly higher operating income, reduced interest expense and absence of special charges taken in 1993 in respect of Unitel and Laidlaw.

Operating Income

Operating profit increased $182.3 million to $1,113.9 million in 1994, with all businesses except Marathon showing improvement. Consolidated revenues amounted to $7,053.4 million in 1994, up from $6,336.8 million in 1993 due mainly to the core transportation and energy businesses.

Transportation

(in millions)	1994	1993	Increase/ (Decrease)
CP Rail System			
Revenues	$ 3,665.1	$ 3,409.7	$ 255.4
Operating income	277.0	244.8	32.2
CP Ships			
Revenues	561.1	440.7	120.4
Operating income	86.0	54.9	31.1
Total			
Revenues	$ 4,154.0	$ 3,810.0	$ 344.0
Operating income	$ 363.0	$ 299.7	$ 63.3

Despite significant negative effects of a 47-day strike in its U.S. based Soo Line operations, CP Rail System's operating earnings increased $32.2 million and revenues exceeded 1993 levels by $255.4 million. Improved economic conditions resulted in a 9% increase in freight traffic and a $247.8 million, or 8%, rise in freight revenues. Canadian grain volumes were up 9% due to a better harvest in 1993 and coal and sulphur traffic rose 11% and 36%, respectively, owing to greater export demand. Intermodal and import/export container traffic increased 19% due primarily to greater demand for the Chicago/U.S. Northeast service, higher port activity in the Port of Montreal and more demand for double stack services. A 27% increase in potash traffic reflected improved demand from China and from 1993 flood-affected farmers in the U.S. Midwest. Chemical volumes increased by 18% due to greater demand for methanol, and automotive traffic growth of 11% came largely from increased demand for GM and Ford trucks. The lengthy strike at Soo Line resulted in lower traffic volumes, especially for grain, and in higher operating costs. Nevertheless, CP Rail System managed to improve its operating ratio to 92.4% in 1994 from 92.8% in 1993 because of its emphasis on cost control.

Operating income from CP Ships exceeded 1993 by $31.1 million, or 57%, and revenue growth of $120.4 million, or 27%, was achieved. Trading conditions improved in 1994 and capacity was expanded through the addition of a port-of-call, a second weekly stop at another port and four ships to the fleet. The larger tonnage and greater speed of the additional ships increased capacity and improved schedule reliability. Container carryings increased 24% and shipping rates improved. Emphasis on cost control and greater efficiencies limited the increase in operating expenses.

Energy

(in millions)	1994	1993	Increase/ (Decrease)
PanCanadian			
Revenues	$ 1,475.0	$ 1,120.4	$ 354.6
Operating income	407.1	307.9	99.2
Fording Coal			
Revenues	648.7	566.5	82.2
Operating income	98.7	90.0	8.7
Total			
Revenues	$ 2,123.7	$ 1,686.9	$ 436.8
Operating income	$ 505.8	$ 397.9	$ 107.9

PanCanadian's operating income surpassed 1993 levels by $99.2 million due mainly to higher production levels and increased selling prices for oil and gas. Revenues increased $354.6 million, or 32% over 1993. Natural gas revenues were up $91.3 million, of which $43.6 million was due to prices, $23.8 million was due to volume and $23.9 million was due to hedging activities. Conventional crude oil revenues were up $89.9 million, of which $58.2 million was due to volume and $31.7 million was due to prices. The oil hedging program did not have a material effect on revenues. The resale of third-party produced crude oil, natural gas and natural gas liquids, which commenced in the second quarter, accounted for revenues of $162.2 million in 1994, while the cost of products purchased for resale was $156.7 million for the year. Production levels increased 11% for conventional oil and 7% for natural gas. Weighted average prices of natural gas, prior to hedging, improved 12% to $1.87 per thousand cubic feet (mcf), mostly reflecting prices in excess of $2.00 per mcf early in 1994; prices fell significantly by the end of 1994 reflecting oversupply conditions and an unseasonably warm winter. Including hedging, average natural gas prices rose 19% to $1.95 per mcf. Weighted average prices for Canadian conventional oil prior to hedging increased 7% to $17.51 per barrel, reflecting mainly the weaker Canadian dollar and narrowing of price differentials between light and heavy oil.

Fording Coal's operating income increased $8.7 million and revenues were up $82.2 million due mainly to increased volumes and favourable effects of the lower value of the Canadian dollar, which mitigated a reduction in average selling prices for coal. Volumes increased 21% to 9.2 million metric tons at mining operations in British Columbia mainly reflecting the full year's effect of operating the Greenhills coal mine, which began coal deliveries in the first quarter of 1993. Greater operating efficiencies at the Fording River operations led to cost containment, while sales volumes increased due mainly to additional sales to new markets. Also, contract mining operations were expanded in Alberta and NYCO Minerals benefited from higher sales volumes of wollastonite products.

Real Estate and Hotels

(in millions)	1994	1993	Increase/ (Decrease)
Marathon			
Revenues	$ 494.6	$ 502.8	$ (8.2)
Operating income	143.7	148.4	(4.7)
CP Rail System – land sales			
Revenues	28.7	28.5	0.2
Operating income	28.7	28.5	0.2
CP Hotels			
Revenues	479.7	477.1	2.6
Operating income	72.7	57.1	15.6
Total			
Revenues	$ 1,003.0	$ 1,008.4	$ (5.4)
Operating income	$ 245.1	$ 234.0	$ 11.1

Marathon's revenues declined $8.2 million and operating profit decreased $4.7 million, reflecting largely the effects on rental income of properties sold and an increase of $5.8 million in asset write-downs, partially offset by an increase of $4.9 million in gains on sale of income properties and sites. During the year, Marathon sold a 50% interest in a large shopping centre and disposed of several non-strategic assets, including two office buildings, three shopping centres, a hotel (to CP Hotels), aviation facilities and two development sites.

Operating income and revenues from CP Hotels increased $15.6 million and $2.6 million, respectively. These increases were attributable mainly to improvements in average occupancy levels (3.4 points to 70.2%) and in average room rates ($3.89 to $115.31) at the owned hotels. This was a result of the improved economy as well as the effects of the low value of the Canadian dollar on tourism in Canada. Other positive factors were improved labour productivity and cost control measures. Also, 1993 operating income included a $5.5 million charge related to the termination of a management contract.

Net Interest Expense

Net interest expense of $403.1 million was down $80.8 million from 1993, due mainly to lower debt levels. The Corporation's net interest coverage improved from 1.1 times in 1993 to 2.4 times in 1994, reflecting better operating results and lower interest expense.

Other Expenses (Income)

Other income of $9.4 million in 1994 contrasts with other expenses of $8.0 million in 1993. Included in 1994 was a gain of $76.7 million, before a tax credit of $11.2 million, from an exchangeable term loan agreement and related disposition rights agreement pertaining to approximately 6.25 million United Dominion shares held by the Corporation. In 1993 there was a $28.5 million gain on the sale of United Dominion Share Appreciation Rights. Net exchange gains decreased $16.7 million in 1994 and corporate expenses increased $9.7 million, of which $7.0 million was a special charge to settle all outstanding issues between Hillsdown Holdings plc. and the Corporation in connection with the 1987 sale of Maple Leaf Mills Limited to Hillsdown.

Income Taxes

As a result of the purchase of income tax losses from Avenor, PanCanadian realized a gain of approximately $20 million in 1994 and $29 million in 1993. In August 1994, PanCanadian acquired approximately $177 million of income tax losses from the Corporation for $51 million. These income tax losses are available for use by PanCanadian in 1995 and 1996.

Equity Interests

Excluding 1993 special charges totalling $203.3 million described on page 41, CP Limited's 48% share of Unitel's loss was up $34.7 million in 1994. Revenue growth of $118.4 million from new services, especially in the residential and small business sectors, was offset by higher operating expenses. These expenses included greater payments to the regional telephone companies to access their local networks and increased marketing and systems costs associated with the new services.

The Corporation's 18.8% interest in Laidlaw resulted in income of $13.9 million in 1994, compared with a loss of $79.9 million in 1993, when there were special charges of $97.6 million, described on page 41. Aside from the special charges, equity income from Laidlaw declined $3.8 million.

1993 Performance Compared with 1992

(in millions)	1993	1992	Increase/ (Decrease)
Revenues	$ 6,336.8	$ 6,786.8	$ (450.0)
Operating income	931.6	263.1	668.5
Interest expense, net	483.9	482.0	1.9
Other expenses	8.0	145.0	(137.0)
Income (loss) before taxes, minority interest and equity in income	439.7	(363.9)	803.6
Income taxes (recovery)	52.9	(150.9)	203.8
Minority interest	33.3	14.1	19.2
Equity in loss of Unitel	(283.4)	–	(283.4)
Equity in income (loss) of Laidlaw	(79.9)	22.4	(102.3)
Equity in income of United Dominion	–	9.1	(9.1)
Loss from continuing operations	$ (9.8)	$ (195.6)	$ 185.8
Per Ordinary Share – continuing operations	$ (0.03)	$ (0.61)	$ 0.58

Operating Income

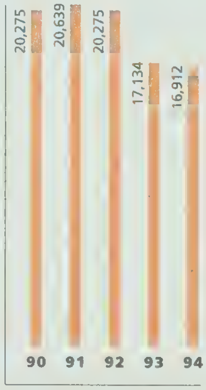
Operating income increased $668.5 million in 1993, reflecting substantially reduced special charges and improved results from most businesses. Consolidated revenues declined $450.0 million, or 7%, due to the deconsolidation of Unitel, effective January 1, 1993 and United Dominion, effective June 1, 1992. Excluding this factor, revenues increased $743.2 million, or 13%, in 1993.

Transportation

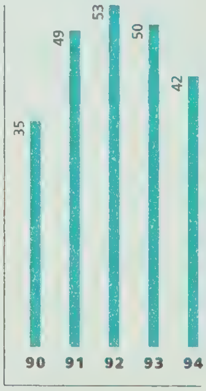
(in millions)	1993	1992	Increase/ (Decrease)
CP Rail System			
Revenues	$ 3,409.7	$ 3,181.3	$ 228.4
Operating income (loss)	244.8	(343.3)	588.1
CP Ships			
Revenues	440.7	359.0	81.7
Operating income	54.9	18.3	36.6
Total			
Revenues	$ 3,810.0	$ 3,506.1	$ 303.9
Operating income (loss)	$ 299.7	$ (325.0)	$ 624.7

Excluding restructuring charges, described on page 41, CP Rail System's operating income improved $134.5 million over 1992, owing chiefly to a 5% increase in freight traffic and downsizing initiatives which controlled costs. Revenue growth of $228.4 million, or 7%, was partly due to a 17% rise in coal shipments over 1992 levels which were curtailed by labour disruptions in the British Columbia coal industry. Intermodal traffic increased 14% due to greater market share and economic recovery. Cost saving initiatives limited the escalation in expenses to $93.9 million, or 3%, excluding the 1992 restructuring charges. As a result, the railway operating ratio improved from 96.5% in 1992 to 92.8% in 1993.

Operating income from CP Ships in 1993 increased $36.6 million and revenues were up $81.7 million reflecting improved trade conditions, market share gains, especially on westbound trade, and improved operating efficiencies.



Assets
($ millions)



Long Term Debt as a % of Debt and Equity

Energy

(in millions)	1993	1992	Increase/ (Decrease)
PanCanadian			
Revenues	$ 1,120.4	$ 953.0	$ 167.4
Operating income	307.9	279.9	28.0
Fording Coal			
Revenues	566.5	262.5	304.0
Operating income	90.0	41.8	48.2
Total			
Revenues	$ 1,686.9	$ 1,215.5	$ 471.4
Operating income	$ 397.9	$ 321.7	$ 76.2

PanCanadian's operating income improved $28.0 million and revenues increased $167.4 million, or 18%. Natural gas revenues were up $96.6 million, reflecting new contracts with major suppliers, improved market conditions and higher exploration and development activities. Conventional crude oil revenues exceeded 1992 by $67.2 million due to increased exploration and development activities and acquisition of new producing properties. Production levels rose 30% for conventional oil and 19% for natural gas. Natural gas prices improved 21% to $1.64 per mcf, while Canadian conventional oil prices declined 10% to $16.34 per barrel.

Fording Coal's operating income and revenues were up $48.2 million and $304.0 million, respectively, over 1992 when coal sales were severely curtailed by a 7½ month strike by mineworkers at the Fording River facility in British Columbia. Coal sales increased 168% to 6.6 million metric tons reflecting resumption of deliveries from the Fording River mine. The average sales price increased 11% reflecting favourable exchange rates. Operating income from the Greenhills operation also improved over 1992 when start-up costs were incurred. The Greenhills mine accounted for coal sales of 1.1 million metric tons in 1993.

Real Estate and Hotels

(in millions)	1993	1992	Increase/ (Decrease)
Marathon			
Revenues	$ 502.8	$ 492.6	$ 10.2
Operating income	148.4	182.0	(33.6)
CP Rail System – land sales			
Revenues	28.5	21.2	7.3
Operating income	28.5	21.2	7.3
CP Hotels			
Revenues	477.1	455.2	21.9
Operating income	57.1	50.0	7.1
Total			
Revenues	$ 1,008.4	$ 969.0	$ 39.4
Operating income	$ 234.0	$ 253.2	$ (19.2)

Although Marathon's revenues were $10.2 million higher in 1993, operating income declined $33.6 million, due mainly to a $30.6 million reduction in gains on sale of income properties and sites. With respect to rental income, Marathon's U.S. shopping centres recorded higher profits, while its office buildings and Canadian shopping centres were affected by an oversupply of space.

Operating income from CP Hotels was up $7.1 million in 1993 as a result of improved market share and cost control. Revenues increased $21.9 million as strong demand resulted in improved occupancy rates and average room rates, particularly at the resort hotels in the Canadian Rockies. Most business hotels also showed improvement over 1992. A negative factor in 1993 was a $5.5 million charge on terminating a management contract.

Net Interest Expense

Although net interest expense increased $1.9 million over 1992, the interest coverage ratio improved from 0.3 times in 1992 to 1.1 times in 1993 reflecting improved results.

Other Expenses (Income)

Other expenses (income) showed an improvement of $137.0 million compared with 1992, when there was a $72.2 million write-down of the Corporation's investment in United Dominion. Corporate expenses were also lower in 1993 and there was a $28.5 million gain in 1993 on the sale of United Dominion Share Appreciation Rights.

Equity Interests

Equity in the loss from the Corporation's 48% interest in Unitel amounted to $283.4 million in 1993, of which $203.3 million related to special charges explained on page 41. The balance of the loss in 1993 of $80.1 million was attributable mainly to start-up costs associated with Unitel's new public long-distance telephone service and aggressive pricing policies by competitors.

Equity in the loss from the Corporation's 18.8% interest in Laidlaw amounted to $79.9 million in 1993, in contrast with income of $22.4 million in 1992. The reversal in 1993 was due mainly to special charges of $97.6 million, described on page 41.

The Effects of Changing Price Levels

Changes in domestic price levels as indicated by the Canadian Consumer Price Index (CPI) have not had a measurable effect on the Corporation's income over the past three years, since the CPI has only increased by approximately 1% annually over this time frame.

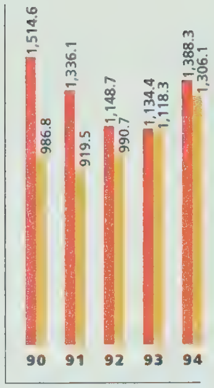
However, a concern for the Corporation continues to be increasing labour costs and higher government taxes, particularly in the rail industry. Therefore, capital investment, employment reduction and rail rationalization programs have been necessary to improve productivity and efficiency as well as prevent erosion of profit margins.

Liquidity and Capital Resources

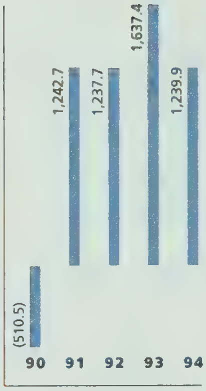
Consolidated assets of $16,912.3 million at December 31, 1994 were down slightly from $17,134.3 million at December 31, 1993. There were, however, significant changes in debt and equity during 1994, with total long term debt decreasing $1,163.1 million, or 19%, and shareholders' equity increasing $783.6 million, or 13%. As a result, the long term debt:equity ratio improved from 50:50 at year-end 1993 to 42:58 at December 31, 1994.

The increase in shareholders' equity reflected not only 1994 earnings, but also the Corporation's issuance on March 10, 1994 of 22 million Ordinary Shares at a price of $22.75 per Share.

Funds for the Corporation's debt reduction and investing activities in 1994 were mainly provided by cash from operations and from asset sales as well as the Corporation's equity issue and cash on hand. Cash from continuing operations improved 17% to $1,306.1 million, proceeds from asset sales amounted to $722.3 million, and issuance of Ordinary Shares, including issuances under the Dividend Reinvestment and Share Purchase Plan, totalled $489.0 million in 1994. Net debt repayments amounted to $1,389.6 million and additions to properties and investments totalled $1,524.9 million in 1994. Cash levels declined $397.5 million to $1,239.9 million at December 31, 1994. To maintain liquidity and a strong cash position, the third and final instalment receipt receivable on the Corporation's sale of Avenor was sold for $222.0 million on September 30, 1994.



Capital Expenditures and Cash from Continuing Operations
($ millions)



Cash on Hand as of December 31
($ millions)

Repayment of long term debt, which totalled $1.8 billion in 1994, included $681.0 million in respect of Canadian Pacific Enterprises Limited (Enterprises) under an agreement entered into between Enterprises, Canadian Pacific Securities Limited (CP Securities) and a syndicate of financial institutions providing for a Loan and Note Issuance Facility repayable by December 1996. In December 1994, Enterprises extended the maturity date on the Loan and Note Issuance Facility to December 1999 for U.S. $400 million and to March 2000 for U.S. $100 million, and established a new 6-year Flexible Term Loan Facility in the amount of U.S. $500 million, in order to cover future liquidity needs. CP Securities paid back $188.9 million of debentures during the year and the Corporation also repaid $358.1 million of debt in 1994. Marathon reduced its total long term debt by $312.3 million.

Dividends

Over the last three years the quarterly dividend rate was maintained at 8 cents per Ordinary Share. Dividends paid to shareholders amounted to $102.1 million in 1992, $102.2 million in 1993 and $108.1 million in 1994. The increase in 1994 was attributable mainly to the issuance of 22 million additional Ordinary Shares in March 1994.

Investing Activities

Consolidated capital expenditures in respect of continuing operations increased $253.9 million to $1,388.3 million in 1994. PanCanadian raised its capital spending $278.6 million to $858.0 million in 1994, as a result of its aggressive exploration and development program, which resulted in the drilling of 1,129 working interest wells and a reserve replacement which was 170% of its 1994 production

volumes. The focus was primarily on domestic lower-risk conventional crude oil and natural gas programs, with a smaller component of higher-risk exploration activity and a developing international program. In 1994, CP Rail System increased capital expenditures by $96.9 million to $314.7 million as a result of the acquisition of new equipment and increased spending on plant. Completion of certain development projects and acquisitions resulted in a reduction in capital expenditures of $51.6 million at Fording Coal, $45.7 million at CP Ships, and $21.0 million at Marathon.

In order to provide funding for Unitel's ongoing requirements, the Corporation invested an additional $112.8 million in Unitel in 1994, an increase of $31.2 million over 1993.

Proceeds from the disposition of properties and investments in 1994 amounted to $537.0 million, of which $247.4 million was generated from the sale of real estate by Marathon and CP Rail System. In addition, the Corporation entered into an exchangeable term loan agreement maturing in August 1995 and repayable in either United Dominion common shares or cash. Concurrently, the Corporation entered into a disposition rights agreement giving it the right to deliver approximately 6.25 million United Dominion common shares to satisfy the debt obligation under the exchangeable term loan agreement. The Corporation received net proceeds of $142.4 million from these agreements, $86.6 million from the redemption of preference shares of a subsidiary of Avenor, and $39.0 million from repayment of a loan to Avenor.

Future Trends, Commitments and Risks

The Corporation has set targets for 1995 relating to operating performance and financial condition based on strategic goals to continue to rationalize the asset portfolio, reduce debt especially at Marathon, and improve its rates of return on investment. Holdings in the Real Estate and Hotels sector remain to be rationalized and a significant step has been taken with the intended sale to Rogers Communications Inc. (Rogers) of the Corporation's investment in Unitel. As part of an amended shareholders' agreement signed early in 1995, the Corporation granted to Rogers an option to purchase the Corporation's interest in Unitel by April 28, 1995 for approximately $200 million. If Rogers exercises the option, the Corporation will recover its December 31, 1994 book value on the transaction. In the event that Rogers does not exercise the option by April 28, 1995, each shareholder of Unitel will have the right to sell its Unitel shares, subject to a right of first refusal in favour of the other two shareholders. The Corporation currently holds 48.0% of Unitel. Rogers and AT&T Canada Inc. hold 29.5% and 22.5%, respectively.

Overall, the Corporation projects continued improvement in operating performance in 1995, provided there are no lengthy labour disputes at CP Rail System or further significant declines in natural gas prices.

A major uncertainty for CP Rail System in 1995 is a possible prolonged strike by unionized employees in the Canadian operations as the railway strives to meet targets of continued improvement in operating efficiencies. Another ongoing concern is the underutilized eastern rail network in Canada. CP Rail System's primary objective is to reduce its operating ratio to 85% by 1996. Assuming the current labour impasse can be favourably resolved, traffic growth (primarily from grain, coal and intermodal volumes), better freight rates, operating efficiencies and recovery at Soo Line from the 1994 strike should lead to better results at CP Rail System.

Provided that there are no lengthy labour disruptions, CP Ships will have a good year in 1995. Canada Maritime Limited expects to maintain good volumes and rates in 1995 and plans to maintain its dominant position in the North Atlantic container shipping market through strict cost control, quality service and strategic partnerships. In 1994 the Corporation reached an agreement in principle to acquire, on a going concern basis, the container shipping business of the Cast group. The Corporation is currently awaiting regulatory approvals.

PanCanadian's operating performance is forecast to remain strong in 1995 with budgeted production, revenues and cash flow all set at higher levels. Volume growth is anticipated for crude oil, natural gas and natural gas liquids, and oil prices should remain stable. These factors should more than compensate for the current weakness in natural gas prices. Should the market price for natural gas deteriorate further, additional volumes which are not contracted for sale early in 1995 may remain unproduced until prices improve. PanCanadian's cost control program and increased production volumes are expected to reduce unit costs in 1995.

At Fording Coal, where continued strong operating results are projected, the benchmark contract price for coal sold to the Japanese consortium of steel mills is expected to rise for the first time in five years. Coal production and sales are projected to increase due to an expansion at the Greenhills mine in British Columbia, where productivity gains are anticipated, and from start-up of operations late in 1994 of the newly-acquired Coal Mountain operation in British Columbia. Fording Coal will also maintain its emphasis on cost control.

Among the other operations, Marathon expects 1995 to be another challenging year. It will continue its strategy of generating cash and reducing debt through shared ownership of certain strategic properties, the sale of non-strategic assets and cost reduction programs. Rental rates are expected to improve, particularly in the office sector. Higher consumer spending should provide benefits in the retail sector. CP Hotels' revenue and profit are forecast to improve for virtually all hotels in 1995 due to a stronger demand for hotel rooms as the economy continues to improve and the Canadian dollar remains at low levels. Equity income from Laidlaw is expected to improve reflecting further acquisitions, cost control and improving market conditions.

The following table provides the estimated effect on consolidated 1995 earnings of changes, under current conditions, in the foreign exchange value of the Canadian dollar, prices of certain resource commodities and vacancy rates in the real estate income-producing properties.

Sensitivity of Consolidated 1995 Net Income

	(in millions)
U.S. 1 cent decrease in the value of the Canadian dollar	$ 23.0
U.S. $1.00 per barrel increase in the price of West Texas Intermediate crude oil	
– PanCanadian	33.0
– the Corporation's other businesses	(7.9)
10 cent per mcf change in natural gas prices	15.6
U.S. $1.00 per metric ton change in coal prices	3.2
1 percentage point change in vacancy rates in Marathon's properties	2.5

In order to reduce risks of unfavourable changes in currency, interest rates and commodity prices, the Corporation engages in various hedging strategies, currency swaps, interest rate agreements and forward exchange contracts (See note 13 of the Consolidated Financial Statements for details of currency and interest rate risk management). PanCanadian's response to commodity price risk is to hedge a portion of its production, subject to established limits of 50% of projected crude oil, natural gas and natural gas liquids volumes for any fiscal year and the two years immediately following. Thereafter, up to a maximum of five years beyond any fiscal year, the authorized limit is reduced to 25%. PanCanadian's policies and procedures provide for appropriate internal controls and documentation surrounding these activities. A thorough risk and credit assessment of all prospective counterparties is conducted. An ongoing monitoring of parties to existing derivative arrangements is maintained. PanCanadian does not anticipate any adverse impact if it is unable to produce crude oil and natural gas to the extent of its hedge commitments because of the relatively conservative limits of its hedge authorizations and the ability to close out most contracts on a daily basis. For the years 1995 through 1997, PanCanadian sold forward 4.5 million barrels of crude oil at an average price per barrel of U.S. $18.19 in 1995, $18.21 in 1996 and $18.24 in 1997. As at December 31, 1994 PanCanadian sold forward approximately 18.9 billion cubic feet of natural gas to be delivered in 1995 for an average price of U.S. $2.08 per thousand cubic feet.

Over the next few years Marathon is expected to continue to depend on asset sales to cover its operating and refinancing cash shortfalls. Reliance on asset sales will diminish when profitability and cash flow improve.

Consolidated capital expenditures of $1.8 billion are planned in 1995, representing an increase of approximately $400 million over 1994. Higher capital spending is anticipated for CP Rail System and CP Ships due to planned acquisitions of additional freight cars, locomotives and container vessels. Due to continued high activity at PanCanadian, capital expenditures in excess of $800 million and a drilling program of over 1,200 wells are anticipated. The emphasis will be on lower risk oil and shallow gas projects, and heavy oil programs. At Fording Coal, spending is expected to be up due to expansion at NYCO Minerals. Lower capital spending by Marathon is anticipated largely because of an expected reduction in building improvements and inducements. CP Hotels expects a slight increase in capital expenditures due to certain expansion and upgrading projects.

At year end 1994, commitments for capital expenditures for the year 1995 amounted to $324.2 million, mainly for the transportation businesses. In addition, Marathon has capital expenditure commitments beyond 1995 in the amount of $20.8 million. Unused lines of credit for short-term and long-term financing available to the Corporation and its businesses totalled $889.1 million at December 31, 1994 and unused commitments for long-term financing amounted to $817.2 million, mainly in respect of Enterprises. Interest rates on these lines of credit borrowings will vary with bank prime, or money market rates.

The Corporation has agreed, as part of the CP Trucks sales agreement dated September 26, 1994, to pay certain job security benefits to former CP Trucks' unionized employees hired by the purchaser if the purchaser ceases its operations in the first three years. If called upon to pay

these benefits, the Corporation's liability would range between \$20 million and \$40 million. The Corporation has also guaranteed the principal and interest obligations under loans made to the purchaser to fund severance payments and loans to fund road equipment purchases for periods up to eight years for a maximum of \$30 million. At December 31, 1994, amounts outstanding on these loans amounted to \$1 million.

Higher cash from operations in 1995 and proceeds from asset sales, mainly from real estate, are expected to be the main sources of funds for the Corporation's increased capital program and for further debt repayment. Cash levels are projected to decline moderately in 1995.

Labour Relations

CP Rail System's Soo Line operations in the U.S. were disrupted in 1994 by a strike by the United Transportation Union (UTU). The strike lasted 47 days before it was ended by the President of the United States who ordered the establishment of a Presidential Emergency Board (Board) to review the issues and to recommend a settlement. The Board recommended that the UTU members receive the wages and benefits that are in effect at the other U.S. Class 1 railroads, and that the Soo Line be able to operate trains with only an engineer and a conductor in virtually all of its operations. This became the basis for a negotiated labour agreement that was ratified in December 1994 and expired at year end. All collective agreements at Soo Line are again open for negotiation. With respect to the Canadian railway labour contracts which expired at the end of 1993, the Canadian Auto Workers and the Brotherhood of Maintenance of Way Employees are currently disputing railway objectives for contract modifications in areas of employment security and work rules. Negotiations are continuing with CP Rail System's other Canadian unions.

Environmental Protection

The Corporation's operations are and will continue to be affected by federal, provincial, state and local laws and regulations regarding the protection of the environment. It is not anticipated that the competitive positions of the Corporation's businesses will be adversely affected within their respective industries by changes to existing laws and regulations since all industry members are subject to the same legislative requirements. The Corporation's businesses have policies and procedures in place which support a comprehensive environmental management system that includes audits, legal compliance and reporting.

CP Rail System is taking action to identify and remediate situations and sites that may pose a risk to the environment. It has been notified by the U.S. Environmental Protection Agency that it is a potentially responsible party for study and clean-up costs at a number of sites. Although expenditures on these sites cannot be quantified due to the uncertainty of the clean-up methods and standards and the number of potentially responsible parties at each site, CP Rail System believes that amounts likely to be expended are not likely to have a material impact.

No material capital expenditures relating to environmental control for existing or new facilities are expected by PanCanadian in the foreseeable future. A phasing-in period for any new legislation is expected to provide sufficient time for PanCanadian to prepare for any increase in operating costs and capital investment requirements.

Laidlaw strives to conduct its operations in compliance with applicable laws and regulations. However, companies in the waste services industry, including Laidlaw, will be faced with fines and penalties and the need to expend funds for remedial work and related activities at waste treatment and disposal facilities. Laidlaw has concluded, based on existing information and applicable laws and regulations, that the amounts expended or anticipated to be expended by Laidlaw are not likely to be material to its operations or financial condition.

Among the Corporation's other businesses, there are not expected to be significant expenditures relating to environmental control on existing or new facilities in the foreseeable future.

Statement of Consolidated Income

For the Year ended December 31

(in millions, except amounts per share)	1994	1993	1992
Revenues	$ 7,053.4	$ 6,336.8	$ 6,786.8
Costs and Expenses			
Cost of goods sold and services	4,204.9	3,779.7	4,245.1
Selling, general and administrative	929.4	894.6	1,534.2
Depreciation, depletion and amortization	805.2	730.9	744.4
	5,939.5	5,405.2	6,523.7
Operating income (Note 2)	1,113.9	931.6	263.1
Interest expense, net (Note 3)	403.1	483.9	482.0
Other expenses (income) (Note 4)	(9.4)	8.0	145.0
Income (loss) before income taxes, minority interest and equity in income	720.2	439.7	(363.9)
Income tax expense (recovery) (Note 5)	169.9	52.9	(150.9)
Minority interest share of income of subsidiaries	39.6	33.3	14.1
Income (loss) before equity in income of associates	510.7	353.5	(227.1)
Equity in income (loss) of:			
– Unitel Communications Holdings Inc.	(114.8)	(283.4)	–
– Laidlaw Inc.	13.9	(79.9)	22.4
– United Dominion Industries Limited	–	–	9.1
Income (loss) from continuing operations	409.8	(9.8)	(195.6)
Discontinued operations (Note 6)	(16.7)	(180.8)	(282.7)
Net income (loss)	$ 393.1	$ (190.6)	$ (478.3)
Average number of Ordinary Shares outstanding	337.5	319.2	318.8
Earnings (loss) per Ordinary Share			
Income (loss) from continuing operations	$ 1.21	$ (0.03)	$ (0.61)
Net income (loss)	$ 1.16	$ (0.60)	$ (1.50)

Statement of Consolidated Retained Income

For the Year ended December 31

(in millions, except amounts per share)	1994	1993	1992
Balance, January 1	$ 3,216.1	$ 3,509.4	$ 4,090.2
Net income (loss)	393.1	(190.6)	(478.3)
	3,609.2	3,318.8	3,611.9
Dividends			
4% Preference Shares	0.5	0.5	0.5
Ordinary Shares ($0.32 per share)	109.4	102.2	102.0
Total dividends	109.9	102.7	102.5
Balance, December 31	$ 3,499.3	$ 3,216.1	$ 3,509.4

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31

(in millions)	1994	1993	1992
Operating Activities			
Income (loss) from continuing operations	$ 409.8	$ (9.8)	$ (195.6)
Depreciation, depletion and amortization	805.2	730.9	744.4
Deferred income tax expense (recovery)	139.8	58.8	(229.3)
Minority interest share of income of subsidiaries	39.6	33.3	14.1
Equity in losses (income) of associates	100.9	363.3	(31.5)
Write-down of assets and restructuring costs	43.1	37.3	554.1
Reduction in restructuring accruals, net	(86.0)	(65.2)	(68.6)
Amortization of exchange losses (gains)	15.3	(13.2)	(5.7)
Gains from sales of businesses, investments and properties	(100.4)	(25.5)	(7.2)
Other operating activities	(66.3)	(21.3)	30.2
Cash from continuing operations, before changes in working capital	1,301.0	1,088.6	804.9
Decrease in non-cash working capital balances relating to continuing operations (Note 7)	5.1	29.7	185.8
Cash from continuing operations	1,306.1	1,118.3	990.7
Cash used by discontinued operations	(27.4)	(58.4)	(134.3)
Total cash from operations	1,278.7	1,059.9	856.4
Dividends			
Paid to shareholders of the Corporation	(108.1)	(102.2)	(102.1)
Paid to minority shareholders of subsidiaries	(15.0)	(14.2)	(21.3)
	(123.1)	(116.4)	(123.4)
Financing Activities			
Issuance of long term debt	407.4	591.5	1,415.8
Repayment of long term debt	(1,797.0)	(550.2)	(1,007.4)
Issuance of shares by subsidiaries	1.9	7.0	105.3
Issuance of Ordinary Shares by the Corporation	489.0	5.9	6.2
Other financing activities	148.6	(29.4)	22.6
Discontinued operations (Note 6)	–	245.3	277.0
	(750.1)	270.1	819.5
Investing Activities			
Business acquisitions and investments (Note 8)	(136.6)	(248.8)	(301.3)
Additions to properties (Note 2)	(1,388.3)	(1,134.4)	(1,148.7)
Sales of businesses, investments and properties	537.0	885.0	260.4
Other investing activities	185.3	(176.4)	(88.8)
Discontinued operations (Note 6)	(0.4)	(139.3)	(279.1)
	(803.0)	(813.9)	(1,557.5)
Cash Position*			
Increase (decrease) in cash	(397.5)	399.7	(5.0)
Cash at beginning of year	1,637.4	1,237.7	1,242.7
Cash at end of year	$ 1,239.9	$ 1,637.4	$ 1,237.7

*Cash comprises cash and temporary investments net of bank loans.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31

Assets

(in millions)	1994	1993
Current Assets		
Cash and temporary investments	$ 1,287.1	$ 1,667.7
Accounts receivable	860.7	735.3
Inventories (Note 9)	366.5	286.9
Investment in United Dominion Industries Limited (Note 13)	105.0	–
	2,619.3	2,689.9
Investments (Note 10)	1,070.3	1,325.7
Properties, at cost (Note 11)		
Transportation	8,372.8	7,976.8
Energy	7,042.2	6,176.6
Real Estate and Hotels	4,000.2	4,112.7
Other	97.7	59.0
Discontinued Operations	–	163.2
	19,512.9	18,488.3
Less: Accumulated depreciation, depletion and amortization	6,834.7	6,232.6
	12,678.2	12,255.7
Other Assets and Deferred Charges (Note 12)	544.5	863.0
	$ 16,912.3	$ 17,134.3

Auditors' Report

To the Shareholders of Canadian Pacific Limited
We have audited the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1994 and 1993 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1994. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Limited as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1994 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants
Montreal, Quebec
March 10, 1995

Liabilities and Shareholders' Equity

(in millions)

	1994	1993
Current Liabilities		
Bank loans	$ 47.2	$ 30.3
Accounts payable and accrued liabilities	1,647.9	1,459.8
Income and other taxes payable	104.5	97.5
Dividends payable	31.4	29.6
Long term debt maturing within one year (Note 13)	330.6	1,372.9
	2,161.6	2,990.1
Deferred Liabilities (Note 14)	620.7	721.9
Long Term Debt (Note 13)	4,553.2	4,690.4
Perpetual 4% Consolidated Debenture Stock (Note 15)	194.5	178.1
Deferred Income Taxes	1,820.4	1,776.2
Deferred Income Credits (Note 16)	456.5	481.3
Minority Shareholders' Interest in Subsidiary Companies (Note 17)	291.1	265.6
Shareholders' Equity (Note 18)		
Preference Shares	14.9	14.9
Ordinary Shares	1,756.6	1,247.0
Premium on securities	1,153.4	1,173.9
Other paid-in surplus	154.1	154.1
Foreign currency translation adjustments	236.0	224.7
Retained income	3,499.3	3,216.1
	6,814.3	6,030.7
Commitments and Contingencies (Note 22)		
	$ 16,912.3	$ 17,134.3

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

David P. O'Brien

D.P. O'Brien, Director

W.W. Stinson

W.W. Stinson, Director

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("CP Limited"). All significant inter-company transactions and balances have been eliminated.

The principal companies and divisions included in each business segment are as follows:

December 31	1994	1993	1992
	Percentage Ownership		
Transportation			
CP Rail System			
CP Rail – a division of the Corporation			
Soo Line Corporation	100.0%	100.0%	100.0%
Delaware and Hudson Railway Company, Inc.	100.0	100.0	100.0
CP Ships			
Canada Maritime Limited	100.0	100.0[3]	57.0
Racine Terminal (Montreal) Limited	100.0	100.0	100.0
Energy			
PanCanadian Petroleum Limited	86.8	86.9	87.1
Fording Coal			
Fording Coal Holdings Inc.	100.0	100.0	100.0
NYCO Minerals, Inc.	100.0	100.0	100.0
Real Estate and Hotels			
Marathon Realty Holdings Inc.	100.0	100.0	100.0
CP Rail System (see above)			
Canadian Pacific Hotels & Resorts Inc.	100.0	100.0	100.0
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	48.0[1]	48.0[4]	60.0
United Dominion Industries Limited	25.4[2]	45.3	45.4[2]

(1) On January 12, 1995, the Corporation granted to Rogers Communications Inc. an option to purchase its interest in Unitel Communications Holdings Inc. (Unitel) that is exercisable between March 1, 1995 and April 28, 1995. The total purchase price payable upon the exercise of the option will approximate the sum of the book value at December 31, 1994 of the Corporation's investment in Unitel plus any additional funds invested by the Corporation during the four-month period ended April 28, 1995. Total option price is estimated to be $200 million.

(2) In May 1992, United Dominion Industries Limited (United Dominion) issued 6.5 million common shares. As the Corporation did not subscribe for any of these shares, its ownership decreased from 55.4% to 45.4%. Consequently, CP Limited changed its method of accounting, effective June 1, 1992, for its investment in United Dominion to the equity method.

Effective December 10, 1992, CP Limited determined that its investment was a non-core asset and wrote down its carrying value to net realizable value as determined by the conversion price set in the equity exchangeable debentures issued in December 1992. The 25.4% ownership of United Dominion presented above reflects the Corporation's ownership of United Dominion upon the exercise of the exchange and disposition rights contained in the agreements mentioned in the following paragraph (Notes 4, 10 and 13).

On April 26, 1994, the Corporation entered into a $211.1 million exchangeable term loan agreement maturing on August 15, 1995 and repayable in either United Dominion common shares or cash. Concurrently the Corporation entered into a disposition rights agreement giving it the right to deliver 6,254,000 United Dominion common shares (representing approximately 16% of the common shares outstanding at December 31, 1994) to satisfy the debt obligation under the exchangeable term loan agreement. The Corporation has deposited these shares with a trust company to satisfy this debt obligation.

(3) Effective January 1, 1993, the Corporation increased its ownership to 100% by acquiring the remaining 43% of the shares (Note 8).

(4) In January 1993, Unitel issued common shares to AT&T Canada Inc. thereby decreasing the Corporation's ownership to 48%. CP Limited changed its method of accounting, effective January 1, 1993, for its investment in Unitel to the equity method.

CP Limited accounts for its investment in its associated companies, Unitel and Laidlaw Inc., on the equity method. A significant part of CP Limited's exploration, development and production of oil and gas and investment in real estate is carried out as joint ventures and partnerships. These investments are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, in so far as they apply to CP Limited, are described under Supplementary Data (see page 72).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

1. Significant Accounting Policies (cont'd)

Revenue Recognition

Transportation: Railway freight revenues are recognized upon the completion of movements.

Revenues from shipping operations, costs directly attributable to loaded moves and vessel costs are accounted for on the basis of voyages completed in the period.

Energy: Revenues from oil and gas operations are recognized at the time the oil is sold or natural gas is delivered.

Coal sales revenues are recognized when the coal has been loaded and has departed the shipping location.

Real Estate and Hotels: Revenues from income-producing properties are generally recognized upon the earlier of attaining an occupancy level of 80% or the expiration of a one-year period following substantial completion. Prior to such time, rental revenues and operating costs are capitalized as part of the cost of the project. Income from real estate sales is fully recognized at the time of sale, provided that estimated future cash flows from the properties are adequate to service any vendor financing.

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Telecommunications and Manufacturing: Revenues from telecommunications activities are recognized when the services are provided.

Income on construction contracts is recognized on the percentage-of-completion basis.

Earnings per Ordinary Share

Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's operations, other than through self-sustained foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary ones. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions except for provisions for depreciation and depletion which are translated on the same basis as the related assets. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's self-sustained foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Post Retirement Benefits

For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method prorated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits, at the date the present accounting policy was adopted, is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

For post retirement health care and life insurance benefits, costs are based on the annual insurance premium paid to provide these benefits.

Inventories

Rail materials and supplies are valued at the lower of average cost and replacement cost.

Finished goods are valued at the lower of average cost and net realizable value.

Properties

Transportation: Accounting for railway properties is carried out in accordance with the Uniform Classification of Accounts issued by the National Transportation Agency in Canada and in accordance with Interstate Commerce Commission rules in the United States. Fixed asset additions and major renewals are recorded at cost. Maintenance and repairs are charged to expense as incurred with the exception of material costs of programmed track replacement in Canada which are capitalized. When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less salvage, is charged to accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property, except for rail and other track material in the United States which is based on usage. For railway properties, the rates used by CP Rail System are as authorized by the National Transportation Agency of Canada for CP Rail, and by the Interstate Commerce Commission for the Soo Line Railroad Company (a wholly-owned subsidiary of Soo Line Corporation) and the Delaware and Hudson Railway Company, Inc.

1. Significant Accounting Policies (cont'd)

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Road diesel locomotives	27 to 40
Freight cars	22 to 43
Ties	28 to 57
Rails – in first position	21 to 23
– in other than first position	27 to 62
Ships	20

Energy: CP Limited follows the full cost method of accounting for oil and gas properties, whereby all costs relating to the exploration for, and the development of, conventional crude oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

In determining depletion and depreciation provisions for conventional crude oil and natural gas assets, CP Limited includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis, by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the total unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations utilize CP Limited's weighted average product prices prevailing at year end.

Depreciation of conventional crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Natural gas liquids extraction and Syncrude oil sands facilities are depreciated on a straight-line basis over the estimated service lives of the assets.

Estimated future dismantlement and site restoration costs of conventional crude oil, natural gas and Syncrude oil sands assets are provided for using the unit of production method. Such costs for extraction facilities of natural gas liquids are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

Expenditures by CP Limited to acquire, explore for and develop identified mineral properties are capitalized, net of costs relating to production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties and abandoned properties are charged against income.

Depletion on producing properties is provided using a unit of production method based upon the proven mineral reserve position.

CP Limited provides for the eventual reclamation of mineral properties based upon current production.

Interest on funds borrowed to finance major energy projects is capitalized during the development and construction periods.

Real Estate and Hotels: Income properties held for investment are stated at the lower of cost less accumulated depreciation, and net recoverable amount which is the estimated undiscounted future cash flow from the ongoing use and residual value of a capital asset. Land held for development is stated at the lower of cost and net recoverable amount. However, when the cost of land held for development equals or exceeds its estimated net realizable value, a write-down provision is recorded equal in amounts to costs capitalized to the land during the reporting period. Income properties and land held for sale are stated at the lower of cost and estimated net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the imputed value of free rent, directly attributable salaries and expenses of development personnel and, for income properties, initial leasing costs.

Hotel properties are recorded at cost including interest capitalized during major renewals.

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Telecommunications and Manufacturing: Property, plant and equipment are recorded at cost which, in the case of new manufacturing facilities, includes interest during construction. Maintenance and repairs are expensed as incurred.

Depreciation of plant and equipment is provided principally on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Rates for telecommunications equipment are based on methodology approved by the Canadian Radio-television and Telecommunications Commission.

2. Segmented Information

Business Segments

CP Limited carries on its operating activities through the following classes of business: Transportation, Energy, Real Estate and Hotels, and until the end of 1992, Telecommunications and Manufacturing. The business segments are based upon the major activities of significant subsidiaries and divisions of CP Limited.

The results of CP Rail System reflect corporate overhead allocations made by the Corporation based principally on the cost of operations. The results of all other entities are based upon their reported figures adjusted, where applicable, for acquisition-related costs.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length rates, are eliminated in reporting revenues and expenses by business segment. Services provided by entities in the Transportation segment to other entities in this segment yielded revenues in 1994 of $72.2 million (1993 – $40.4 million; 1992 – $34.2 million).

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment but are eliminated in reporting total consolidated revenues and expenses. Consolidated operating income is not affected by this practice. Services provided by the Corporation's Transportation segment to other business segments yielded revenues in 1994 of $200.6 million (1993 – $147.1 million; 1992 – $53.2 million). Other charges between business segments amounted to $26.7 million in 1994 (1993 – $21.4 million; 1992 – $43.8 million).

(in millions)		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization	Operating Income (Loss)
Transportation						
CP Rail System	1994	$ 3,665.1	$ 2,488.3	$ 691.9	$ 207.9	$ 277.0
	1993	3,409.7	2,296.0	676.0	192.9	244.8
	1992	3,181.3	2,219.7	1,104.8	200.1	(343.3)
CP Ships	1994	561.1	381.5	75.5	18.1	86.0
	1993	440.7	305.8	66.3	13.7	54.9
	1992	359.0	268.3	61.5	10.9	18.3
Total (after elimination of intra-segment charges)	1994	$ 4,154.0	$ 2,797.6	$ 767.4	$ 226.0	$ 363.0
	1993	3,810.0	2,561.4	742.3	206.6	299.7
	1992	3,506.1	2,453.8	1,166.3	211.0	(325.0)
Energy						
PanCanadian Petroleum Limited	1994	$ 1,475.0	$ 555.0	$ 74.5	$ 438.4	$ 407.1
	1993	1,120.4	366.2	62.6	383.7	307.9
	1992	953.0	311.6	51.2	310.3	279.9
Fording Coal	1994	648.7	496.7	11.3	42.0	98.7
	1993	566.5	429.0	10.1	37.4	90.0
	1992	262.5	191.6	10.0	19.1	41.8
Total	1994	$ 2,123.7	$ 1,051.7	$ 85.8	$ 480.4	$ 505.8
	1993	1,686.9	795.2	72.7	421.1	397.9
	1992	1,215.5	503.2	61.2	329.4	321.7

2. Segmented Information (cont'd)

(in millions)		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization	Operating Income (Loss)
Real Estate and Hotels						
Marathon Realty Holdings Inc.	1994	$ 494.6	$ 275.0	$ 13.9	$ 62.0	$ 143.7
	1993	502.8	282.3	14.0	58.1	148.4
	1992	492.6	243.8	13.7	53.1	182.0
CP Rail System	1994	28.7	–	–	–	28.7
	1993	28.5	–	–	–	28.5
	1992	21.2	–	–	–	21.2
Canadian Pacific Hotels & Resorts Inc.	1994	479.7	307.9	62.3	36.8	72.7
	1993	477.1	309.3	65.6	45.1	57.1
	1992	455.2	297.4	70.1	37.7	50.0
Total	1994	$ 1,003.0	$ 582.9	$ 76.2	$ 98.8	$ 245.1
	1993	1,008.4	591.6	79.6	103.2	234.0
	1992	969.0	541.2	83.8	90.8	253.2
Telecommunications and Manufacturing						
Unitel Communications Holdings Inc.	1994	$ –	$ –	$ –	$ –	$ –
	1993	–	–	–	–	–
	1992	440.5	209.5	129.4	99.1	2.5
United Dominion Industries Limited	1994	–	–	–	–	–
	1993	–	–	–	–	–
	1992	752.7	634.4	93.5	14.1	10.7
Total	1994	$ –	$ –	$ –	$ –	$ –
	1993	–	–	–	–	–
	1992	1,193.2	843.9	222.9	113.2	13.2
Consolidated Total (after elimination of inter-segment charges)	1994	$ 7,053.4	$ 4,204.9	$ 929.4	$ 805.2	$ 1,113.9
	1993	6,336.8	3,779.7	894.6	730.9	931.6
	1992	6,786.8	4,245.1	1,534.2	744.4	263.1

Notes:

Transportation: Included in selling, general and administrative expenses of CP Rail System, in 1992, is a $453.6 million provision for a reduction in train crew sizes, expected rail line rationalization in eastern Canada and other cost reduction initiatives.

Real Estate and Hotels: Included in Marathon Realty Holdings Inc.'s cost of goods and services are provisions for write-down of income properties and sites and land amounting to $43.1 million in 1994, $37.3 million in 1993 and $28.3 million in 1992.

Telecommunications and Manufacturing: The 1992 results for United Dominion Industries Limited are for the period January 1 to May 31, 1992. Effective June 1, 1992, this investment was accounted for on the equity method (Note 1).

2. Segmented Information (cont'd)

(in millions)

	1994	1993	1992
Identifiable Assets			
Transportation			
CP Rail System	$ 6,064.1	$ 5,808.6	$ 5,593.7
CP Ships	259.0	211.8	136.2
	6,323.1	6,020.4	5,729.9
Energy			
PanCanadian Petroleum Limited	3,864.6	3,342.9	3,250.3
Fording Coal	688.3	632.1	524.6
	4,552.9	3,975.0	3,774.9
Real Estate and Hotels			
Marathon Realty Holdings Inc.	2,614.6	2,850.4	3,016.0
Canadian Pacific Hotels & Resorts Inc.	1,038.8	940.9	1,013.9
	3,653.4	3,791.3	4,029.9
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	166.7	173.9	1,120.0
United Dominion Industries Limited	105.0	170.7	170.7
	271.7	344.6	1,290.7
Waste Services			
Laidlaw Inc.	668.4	656.7	739.8
Discontinued Operations			
CP Trucks	–	120.2	150.9
Canadian Pacific Forest Products Limited	–	–	3,110.4
	–	120.2	3,261.3
Other	3,571.7	4,044.5	3,380.5
Inter-company eliminations	(2,128.9)	(1,818.4)	(1,931.8)
	$ 16,912.3	$ 17,134.3	$ 20,275.2

(in millions)

	1994	1993	1992
Additions to Properties			
Transportation			
CP Rail System	$ 314.7	$ 217.8	$ 209.5
CP Ships	14.7	60.4	6.0
	329.4	278.2	215.5
Energy			
PanCanadian Petroleum Limited	858.0	579.4	344.3
Fording Coal	65.4	117.0	91.4
	923.4	696.4	435.7
Real Estate and Hotels			
Marathon Realty Holdings Inc.	108.2	129.2	243.8
Canadian Pacific Hotels & Resorts Inc.	27.1	30.4	35.8
	135.3	159.6	279.6
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	–	–	207.2
United Dominion Industries Limited	–	–	6.5
	–	–	213.7
Other	0.2	0.2	4.2
	$ 1,388.3	$ 1,134.4	$ 1,148.7

2. Segmented Information (cont'd)

(in millions)	1994	1993	1992
Geographic Segments			
Canada			
Revenues			
Domestic	$ 4,453.3	$ 3,926.6	$ 4,012.6
Export	1,231.0	1,070.5	826.2
Inter-company revenues	(299.5)	(208.9)	(131.2)
	$ 5,384.8	$ 4,788.2	$ 4,707.6
Operating income	$ 1,100.4	$ 795.4	$ 254.5
Identifiable assets	$ 13,971.9	$ 13,578.3	$ 17,456.3
United States			
Revenues	$ 1,133.1	$ 1,128.6	$ 1,602.9
Operating income (loss)	$ (64.4)	$ 90.4	$ (13.8)
Identifiable assets	$ 3,757.9	$ 4,020.8	$ 3,347.1
Other Countries			
Revenues	$ 535.5	$ 420.0	$ 476.3
Operating income	$ 77.9	$ 45.8	$ 22.4
Identifiable assets	$ 371.3	$ 352.3	$ 493.1
Summary			
Revenues	$ 7,053.4	$ 6,336.8	$ 6,786.8
Operating income	$ 1,113.9	$ 931.6	$ 263.1
Identifiable assets	$ 18,101.1	$ 17,951.4	$ 21,296.5
Investment in Laidlaw Inc.	668.4	656.7	739.8
Investment in Unitel Communications Holdings Inc.	166.7	173.9	–
Investment in United Dominion Industries Limited	105.0	170.7	170.7
Inter-company eliminations	(2,128.9)	(1,818.4)	(1,931.8)
	$ 16,912.3	$ 17,134.3	$ 20,275.2

3. Interest Expense, Net

(in millions)	1994	1993	1992
Long term debt and debenture stock	$ 503.6	$ 575.9	$ 625.0
Short term debt	5.5	6.3	20.0
	509.1	582.2	645.0
Less: Interest income	87.1	77.8	106.6
Interest capitalized	18.9	20.5	56.4
	$ 403.1	$ 483.9	$ 482.0

4. Other Expenses (Income)

(in millions)	1994	1993	1992
Gain realized from exchangeable term loan and related United Dominion Industries Limited disposition rights agreements	$ (76.7)	$ –	$ –
Amortization of exchange losses (gains)	15.3	(13.2)	(5.7)
Other exchange losses (gains)	(31.6)	(19.8)	(15.6)
Amortization of the discount of the present value of the restructuring accruals	36.7	40.9	15.7
Loss (gain) on dilution of ownership in subsidiaries	–	(1.3)	12.5
Gain on sale of United Dominion Industries Limited appreciation rights	–	(28.5)	–
Write-down of investment in United Dominion Industries Limited	–	–	72.2
Corporate expenses	38.9	29.2	35.9
Other	8.0	0.7	30.0
	$ (9.4)	$ 8.0	$ 145.0

5. Income Tax Expense (Recovery)

(in millions)

	1994	1993	1992
Canadian			
Current	$ 22.1	$ (6.5)	$ 70.2
Deferred	182.0	49.1	(229.0)
	$ 204.1	$ 42.6	$ (158.8)
Foreign			
Current	$ 8.0	$ 0.6	$ 8.2
Deferred	(42.2)	9.7	(0.3)
	$ (34.2)	$ 10.3	$ 7.9
Total			
Current	$ 30.1	$ (5.9)	$ 78.4
Deferred	139.8	58.8	(229.3)
	$ 169.9	$ 52.9	$ (150.9)

The deferred income tax expense (recovery) arose from the following:

	1994	1993	1992
Excess of tax over book depreciation	$ 9.7	$ 33.1	$ 50.0
Exploration and development allowances	49.0	20.2	6.8
Losses tax affected	(60.7)	(81.7)	(138.9)
Tax losses utilized	105.1	59.1	24.7
Write-down of assets and restructuring costs	(10.4)	(16.0)	(210.8)
Reduction in restructuring accruals	34.6	32.3	30.3
Other	12.5	11.8	8.6
	$ 139.8	$ 58.8	$ (229.3)

The difference between the income tax expense (recovery) and the provision obtained by applying the statutory tax rate is as follows:

	1994	1993	1992
Provision at Canadian statutory rates	$ 320.4	$ 194.3	$ (160.6)
Depletion and resource allowances	(85.7)	(70.5)	(53.7)
Foreign tax rate differentials	(82.2)	(61.8)	(28.2)
Royalties and mineral reserve tax	32.6	30.6	25.7
Losses (gains) not tax affected	(31.3)	(14.9)	49.5
Loss carryforwards recognized	(21.6)	(39.4)	(1.5)
Large corporations tax	19.4	17.8	20.4
Non-deductible amortization of excess of acquisition cost over book value	11.0	11.5	11.3
Capital gains rate differential	(2.0)	(6.9)	(21.5)
Other	9.3	(7.8)	7.7
Income tax expense (recovery)	$ 169.9	$ 52.9	$ (150.9)

6. Discontinued Operations

On September 26, 1994, the Corporation sold the remaining divisions of its CP Trucks business.

On September 1, 1993, the Corporation sold its investment in Canadian Pacific Forest Products Limited (now called Avenor Inc.) for total proceeds of $697.8 million on an instalment basis. The Corporation sold the shares for $19.00 per share with $6.00 payable on closing, $6.50 on September 30, 1994 and $6.50 on September 29, 1995. During September 1993, the Corporation sold the September 30, 1994 instalment for $224.5 million. On September 30, 1994, the Corporation sold the September 29, 1995 instalment for $222.0 million.

6. Discontinued Operations (cont'd)

The results of discontinued operations are summarized below:

(in millions)	1994	1993		
	CP Trucks	CP Trucks	CP Forest	Total
Revenues	$ 112.2	$ 263.6	$ 1,223.6	$ 1,487.2
Operating loss	$ (13.9)	$ (16.5)	$ (123.7)	$ (140.2)
Non-operating expenses, net	(0.3)	(1.1)	(28.7)	(29.8)
Income (loss) before income taxes and minority interest	(14.2)	(17.6)	(152.4)	(170.0)
Income tax expense (recovery)	–	0.2	(60.7)	(60.5)
Minority interest	–	–	(28.3)	(28.3)
Net income (loss)	(14.2)	(17.8)	(63.4)	(81.2)
Loss on disposal	(37.0)	–	(111.3)	(111.3)
Income tax expense (recovery)	(34.5)	–	(11.7)	(11.7)
	(2.5)	–	(99.6)	(99.6)
Loss from discontinued operations	$ (16.7)	$ (17.8)	$ (163.0)	$ (180.8)

(in millions)	1992		
	CP Trucks	CP Forest	Total
Revenues	$ 419.5	$ 1,825.5	$ 2,245.0
Operating loss	$ (99.9)	$ (269.5)	$ (369.4)
Non-operating expenses, net	(5.4)	(107.1)	(112.5)
Income (loss) before income taxes and minority interest	(105.3)	(376.6)	(481.9)
Income tax expense (recovery)	0.3	(128.1)	(127.8)
Minority interest	–	(71.4)	(71.4)
Loss from discontinued operations	$ (105.6)	$ (177.1)	$ (282.7)

The results of discontinued operations are after deductions for depreciation expense of $5.2 million in 1994, $113.4 million in 1993 and $170.7 million in 1992 and are after deductions for interest expense of $0.7 million in 1994, $88.5 million in 1993 and $117.0 million in 1992.

Financing activities for discontinued operations are:

(in millions)	1994	1993	1992
Issuance of long term debt	$ –	$ 96.2	$ 272.2
Repayment of long term debt	–	(126.0)	(175.4)
Issuance of shares	–	275.1	180.2
	$ –	$ 245.3	$ 277.0

Investing activities for discontinued operations are:

(in millions)	1994	1993	1992
Business acquisitions and investments	$ –	$ (36.9)	$ (75.6)
Additions to properties	(1.4)	(112.7)	(248.5)
Sales of businesses, investments and properties	14.2	13.6	67.8
Other investing activities	(13.2)	(3.3)	(22.8)
	$ (0.4)	$ (139.3)	$ (279.1)

7. Changes in Non-Cash Working Capital Balances

(in millions)	1994	1993	1992
(Increase) decrease in current assets			
Accounts receivable	$ (125.4)	$ 355.4	$ 468.5
Inventories	(79.6)	324.6	314.4
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	188.1	(330.6)	(219.4)
Income and other taxes payable	7.0	(62.2)	90.6
(Increase) decrease in non-cash working capital balances during the year	(9.9)	287.2	654.1
Increase (decrease) in non-cash working capital balances relating to discontinued operations	16.9	(268.3)	(154.0)
Increase in non-cash working capital balances relating to reduction in restructuring accruals	88.8	68.7	68.6
Increase (decrease) in non-cash working capital balances due to change in accounting method for the Corporation's investment in:			
Unitel Communications Holdings Inc. (Note 1)	–	46.4	–
United Dominion Industries Limited (Note 1)	–	–	(270.9)
Decrease in non-cash working capital balances relating to write-downs of assets and restructuring costs	–	–	(131.7)
Other changes in non-cash working capital balances not relating to continuing operations (mainly movement from/to current assets/liabilities to/from long term assets/liabilities)	(90.7)	(104.3)	19.7
Decrease in non-cash working capital balances relating to continuing operations	$ 5.1	$ 29.7	$ 185.8

8. Business Acquisitions and Investments

Expenditures on business acquisitions and investments comprise the following:

(in millions)	1994	1993	1992
Investment by the Corporation in:			
– Unitel Communications Holdings Inc.	$ 112.8	$ 81.6	$ –
– PacFor Holdings Inc.	–	86.6	–
– Laidlaw Inc.	–	–	50.1
Acquisition of minority interest in Canada Maritime Limited	–	20.4	–
Loan to Avenor Inc.	–	39.0	–
Acquisitions by United Dominion Industries Limited	–	–	180.7
Other acquisitions and investments	23.8	21.2	70.5
	$ 136.6	$ 248.8	$ 301.3

On September 1, 1993, concurrent with the sale of Avenor Inc. (Note 6), the Corporation subscribed for $86.6 million non-voting preference shares of a subsidiary of Avenor Inc. (PacFor Holdings Inc.). These preference shares were redeemed in 1994.

Effective January 1, 1993, the Corporation increased its ownership of Canada Maritime Limited to 100% from 57% by acquiring the minority interest held by Compagnie Maritime Belge. The excess of cost over book value, which amounted to approximately $6 million, has been allocated to depreciable assets.

In January 1992, United Dominion Industries Limited (United Dominion) acquired the net assets of the door and architectural and industrial wall systems and floor decking businesses of the Robertson-CECO Corporation, and the stock of Bredel Exploitatie B.V. These acquisitions have been accounted for by the purchase method and are included in United Dominion's results from the dates of acquisition.

On February 20, 1992, the Corporation acquired 4,550,000 Class B Non-Voting Shares of Laidlaw Inc. for cash consideration of $50.1 million or $11.00 per share.

9. Inventories

(in millions)	1994	1993
Rail materials and supplies	$ 207.3	$ 167.3
Finished goods	127.5	81.3
Stores and materials	31.7	38.3
	$ 366.5	$ 286.9

10. Investments

(in millions)	1994	1993
Accounted for on the equity basis:		
Laidlaw Inc.*	$ 668.4	$ 656.7
Unitel Communications Holdings Inc. (Note 1)	166.7	173.9
CNCP Niagara-Detroit Partnership	66.8	56.4
Doubletree Hotels**	46.7	30.5
Other	41.9	49.9
Accounted for on the cost basis:		
United Dominion Industries Limited (Note 1)	–	170.7
PacFor Holdings Inc. (Note 8)	–	86.6
Loan to Avenor Inc.	–	39.0
Other	79.8	62.0
	$ 1,070.3	$ 1,325.7

*The Corporation owns 22,500,000 voting Class A Shares, which represent 47.2% of Laidlaw's voting Class A Shares outstanding, and 29,711,034 Class B Non-Voting Shares, which represent 12.9% of Laidlaw's Class B Non-Voting Shares outstanding. The Corporation's ownership interest in Laidlaw, based on the combined number of Class A and Class B shares outstanding, was 18.8% at December 31, 1994, 1993 and 1992.

At December 31, 1994, the difference of approximately $274 million between the carrying amount of the Corporation's investment in Laidlaw and its share of the underlying equity in net assets of Laidlaw has been assigned to goodwill and is being written off over 40 years.

The quoted market value of the Corporation's investment in Laidlaw at December 31, 1994 was $587.4 million.

**On December 16, 1993, Doubletree Hotels Corporation, a then 80%-owned subsidiary of Canadian Pacific Hotels & Resorts Inc., merged with Guest Quarters Hotels Partnership to form Doubletree Hotels. On July 1, 1994, Doubletree Hotels completed an Initial Public Offering, resulting in dilution of CP Limited's interest to 26.2% from 32%.

11. Properties and Accumulated Depreciation, Depletion and Amortization

(in millions)

	1994 Cost	1994 Accumulated Depreciation, Depletion and Amortization	1994 Net	1993 Net
Transportation				
CP Rail System	$ 8,132.6	$ 2,974.4	$ 5,158.2	$ 4,984.7
CP Ships	240.2	137.5	102.7	109.2
	8,372.8	3,111.9	5,260.9	5,093.9
Energy				
PanCanadian Petroleum Limited	6,225.9	2,774.0	3,451.9	3,006.2
Fording Coal	816.3	289.7	526.6	506.8
	7,042.2	3,063.7	3,978.5	3,513.0
Real Estate and Hotels				
Marathon Realty Holdings Inc.	2,833.5	354.9	2,478.6	2,734.2
Canadian Pacific Hotels & Resorts Inc.	1,166.7	263.9	902.8	819.0
	4,000.2	618.8	3,381.4	3,553.2
Discontinued Operations				
CP Trucks	–	–	–	63.2
Other	97.7	40.3	57.4	32.4
	$ 19,512.9	$ 6,834.7	$ 12,678.2	$ 12,255.7

12. Other Assets and Deferred Charges

(in millions)

	1994	1993
Unamortized exchange loss	$ 213.5	$ 183.9
Prepaid pension cost	126.5	113.2
Long term receivables	63.4	53.9
Unrealized exchange gains	32.2	164.9
Unamortized discount on long term debt and issue costs	17.4	20.9
Net assets held for sale	16.3	16.7
Goodwill	8.7	11.8
Final instalment receipt on sale of Avenor Inc.	–	216.5
Other	66.5	81.2
	$ 544.5	$ 863.0

13. Long Term Debt

(in millions)	1994	1993
Canadian Pacific Limited		
6⅞% – 10½% Debentures due 1995-2022	$ 1,567.2	$ 1,818.9
9.45% Equipment Trust Certificates due 1998	141.0	133.0
8.5% Exchangeable Debentures due 1995	105.0	105.0
Obligations under capital leases due 1995-1999	22.4	28.6
Soo Line Corporation		
13% Notes due 1995-2005	36.8	36.1
Obligations under capital leases due 1995-1999	17.2	17.6
PanCanadian Petroleum Limited		
10.55% Debentures due 2000	150.0	150.0
7.9% – 8.1% Medium term notes due 2002	141.0	133.0
Commercial paper	181.3	–
Marathon Realty Holdings Inc.		
7⅝% – 13⅞% Mortgages due 1996-2017	525.2	548.4
Bank term loans due 1995-1997	241.9	370.1
9.85% – 11¼% Secured debentures due 1995-2006	285.5	360.4
9% – 10½% First mortgage bonds due 1997-2006	108.6	173.1
Canadian Pacific Enterprises Limited		
Bank term loans due 1999-2000	705.0	1,321.4
8.67% Debentures due 1998	97.7	117.4
Canadian Pacific Securities Limited		
10.5% – 11.6% Guaranteed debentures due 1996-2026	542.5	731.4
Other	15.5	18.9
	4,883.8	6,063.3
Less: Long term debt maturing within one year	330.6	1,372.9
	$ 4,553.2	$ 4,690.4

The Corporation's debentures are unsecured, but carry a negative pledge.

Equipment Trust Certificates are secured by specific units of railway rolling stock.

On December 10, 1992, the Corporation issued $105 million of 8.5% unsecured equity exchangeable debentures maturing December 15, 1995 (the "Exchangeable Debentures"). The Exchangeable Debentures are exchangeable at maturity into a maximum of 10 million common shares of United Dominion Industries Limited (United Dominion) (representing approximately 25% of the common shares outstanding at December 31, 1994). Based upon the quoted market value of United Dominion shares and the maximum exchange value of $15.00 set in the Exchangeable Debentures, the market value of the Exchangeable Debentures at December 31, 1994 is $150 million. As it is management's intention to settle the Exchangeable Debentures with the investment in United Dominion shares shown as a current asset on the consolidated balance sheet, no gain or loss will be recorded at that time.

$75 million of PanCanadian Petroleum Limited's 10.55% Debentures due 2000 have been swapped into United States dollars at an average exchange rate of Canadian $1.5031 per United States dollars.

Marathon Realty Holdings Inc.'s (Marathon Realty) bank term loans of $241.9 million bear interest at rates which fluctuate with bank prime or money market rates except for $195 million for which Marathon Realty has entered into interest rate swaps for periods of five years which expire in 1995 and 1996, in order to fix the interest rate, at a weighted average rate of approximately 10.2%.

Canadian Pacific Enterprises Limited's bank term loans due 1999-2000 of $705 million bear interest at rates which fluctuate with money market rates, except for $282 million which have been converted, under interest rate swap agreements which expire in 1995 and 1996, from floating rates to fixed rates averaging 8.6%.

At December 31, 1994, foreign currency long term debt, denominated principally in United States dollars, amounted to $2,724.8 million (1993 – $3,608.8 million).

Annual maturities and sinking fund requirements for each of the five years following 1994 are: 1995 – $330.6 million; 1996 – $741.3 million; 1997 – $197.3 million; 1998 – $289.6 million; 1999 – $745.9 million.

Substantially all of Marathon Realty's long term debt is secured by income properties and income properties under construction.

The Corporation and a number of its subsidiaries are parties with major financial institutions to financial instruments with off-balance-sheet risk. These financial instruments include foreign exchange contracts and interest rate, currency and commodity swap agreements principally associated with certain of CP Limited's long term debt and future commodity revenue. In addition to the currency and interest rate swaps on the debentures and bank term loans referred to above, CP Limited has entered into approximately $2,600 million of foreign exchange

13. Long Term Debt (cont'd)

contracts, $1,500 million of interest rate swap agreements and $400 million of currency and commodity swap agreements at December 31, 1994. These instruments, which have maturities between 1995 and 2002, involve to varying degrees elements of credit or market risk in excess of the amount recognized in the consolidated balance sheet. CP Limited is exposed to credit loss in the event of nonperformance by the counterparties; however, CP Limited does not anticipate such nonperformance. CP Limited is also exposed to market loss due to movements in interest rates, currency values and commodity prices.

14. Deferred Liabilities

(in millions)

	1994	1993
Provision for restructuring costs	$ 320.7	$ 403.5
Deferred workmen's compensation	89.0	76.9
Future removal and site restoration costs	81.4	64.8
Accrued pension cost	31.2	36.9
Deferred exchange gain	–	50.6
Other	98.4	89.2
	$ 620.7	$ 721.9

15. Perpetual 4% Consolidated Debenture Stock

(in millions)

	1994			1993		
Currency of Issue	Sterling	United States Dollar	Total	Sterling	United States Dollar	Total
Issued	£ 46.8	$ 65.0	$ 194.5	£ 46.8	$ 65.0	$ 178.1

The consolidated debenture stock, created by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Corporation, with certain exceptions.

16. Deferred Income Credits

Deferred Income Credits include $170.8 million (1993 – $175.8 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, $92.6 million (1993 – $93.5 million) from other bodies, mainly for relocation of railway lines, $68.1 million (1993 – $70.3 million) in investment tax credits and $68.4 million (1993 – $74.0 million) representing the accumulated surplus depreciation (as revealed by a study, in 1993, of the expected economic lives of existing depreciable assets as required by the National Transportation Agency). These amounts are being amortized to income on the same basis as the related properties are being depreciated.

17. Minority Shareholders' Interest in Subsidiary Companies

(in millions)

	1994	1993
PanCanadian Petroleum Limited	$ 264.2	$ 238.5
Marathon Realty Holdings Inc.		
7.5% Cumulative redeemable preferred shares	25.0	25.0
Other	1.9	2.1
	$ 291.1	$ 265.6

18. Shareholders' Equity

Preferred Shares: At December 31, 1994, the Corporation was authorized to issue 20,381,788 Cumulative Redeemable Shares without nominal or par value. No shares of this class are outstanding.

Preference Shares: 4% Non-Cumulative
Authorized: an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

(in millions)	Number	1994	1993	1992
Issued:				
Sterling Preference Shares	2,594,769	$ 4.2	$ 4.2	$ 4.2
Less: owned by an indirect wholly-owned subsidiary of the Corporation	(33,000)	–	–	–
	2,561,769	4.2	4.2	4.2
Canadian Dollar Preference Shares	11,539,191	11.6	11.6	11.6
Less: owned by an indirect wholly-owned subsidiary of the Corporation	(842,250)	(0.9)	(0.9)	(0.9)
	10,696,941	10.7	10.7	10.7
		$ 14.9	$ 14.9	$ 14.9

Every Sterling Preference Share and every Canadian Dollar Preference Share gives the same rights as to voting as is given by an Ordinary Share.

Ordinary Shares: At December 31, 1994, the Corporation was authorized to issue an unlimited number of shares without nominal or par value.

An analysis of Ordinary Share balances is as follows:

(in millions)	1994		1993		1992	
	Number	Amount	Number	Amount	Number	Amount
Balance, January 1	319.4	$ 1,247.0	319.1	$ 1,241.1	318.7	$ 1,234.9
New issue	22.0	500.5	–	–	–	–
Issued under dividend reinvestment and share purchase, and stock option plans	0.4	9.1	0.3	5.9	0.4	6.2
Balance, December 31	341.8	$ 1,756.6	319.4	$ 1,247.0	319.1	$ 1,241.1

On March 10, 1994, the Corporation issued 22 million Ordinary Shares at a price of $22.75 per share for total gross proceeds of $500.5 million. Share issue expenses of $20.5 million have been charged to Premium on Securities.

Effective July 1, 1992, the Corporation amended its Dividend Reinvestment and Share Purchase Plan to reinstate the provision which permitted participants to acquire new Ordinary Shares of the Corporation by investing optional cash payments, to a maximum of $30,000 in any calendar year.

Foreign Currency Translation Adjustments: An analysis of the Foreign Currency Translation Adjustments balance is as follows:

(in millions)	1994	1993	1992
Balance, January 1	$ 224.7	$ 219.4	$ 72.4
Effect of exchange rate changes	11.8	5.3	171.0
Other	(0.5)	–	(24.0)
Balance, December 31	$ 236.0	$ 224.7	$ 219.4

19. Stock Options

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase Ordinary Shares of the Corporation at a price not less than the market value of the shares at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Share Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment of an amount equal to the excess of the market value of an Ordinary Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

In 1994, 848,727 shares (1993 – 1,342,849) were available for the granting of future options under the stock option plan out of the 7,000,000 (1993 – 7,000,000) Ordinary Shares originally authorized.

At December 31, 1994, options covering 5,674,832 Ordinary Shares (1993 – 5,070,944) were outstanding. These options expire in the years 1996 to 2004 and are exercisable at prices ranging from $16.125 to $27.875 per share.

Details of the stock options outstanding were as follows:

	1994	1993
Outstanding at beginning of year	5,070,944	3,369,307
Granted	942,178	1,812,984
Exercised	(175,092)	(12,058)
Cancelled	(163,198)	(99,289)
Outstanding at end of year	5,674,832	5,070,944

Options covering 2,518,967 (1993 – 1,927,041) Ordinary Shares were exercisable at December 31, 1994 at a weighted average option price of $20.094 (1993 – $20.707) per share.

20. Shareholder Protection Rights Plan

On May 2, 1990, the shareholders of the Corporation approved a Shareholder Protection Rights Plan (the Rights Plan). Under the Rights Plan, one right was issued for each Ordinary Share and holders of Preference Shares received convertible rights which will be automatically converted into ordinary rights based on the value of the Preference Shares relative to the Ordinary Shares.

The rights issued to shareholders under the Rights Plan entitle the holder, upon the occurrence of certain triggering events, to acquire equity interests in the Corporation at a 50% discount to the market. Triggering events include the acquisition of 15% or more of the Ordinary Shares alone, or of the Ordinary and Preference Shares together, in a transaction not approved by the Board of Directors of the Corporation. However, the rights are not triggered by certain permitted bids that are made to all holders of Ordinary Shares and which must be approved by a majority vote of independent shareholders.

Alexander Centre Industries Limited has applied to the Supreme Court of Ontario for certain orders, including an order declaring the Rights Plan to be oppressive and in disregard of the interest of the Preference shareholders, an order restraining the Corporation from taking any action in connection with the Rights Plan and an order amending the Rights Plan so as to treat the Preference shareholders on an equal basis in relation to the Ordinary shareholders.

21. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense from continuing operations for the year for such defined benefit plans includes the following components:

(in millions)	1994	1993	1992
Service cost-benefits earned during the year	$ 26.5	$ 21.0	$ 22.3
Interest cost on projected benefit obligation	198.4	352.8	379.6
Actual return on pension fund assets	8.2	(444.8)	(321.5)
Net amortization and deferrals	(164.3)	135.2	(28.8)
Net pension expense	$ 68.8	$ 64.2	$ 51.6

The following table sets forth the plans' funded status and the amounts recognized in CP Limited's consolidated balance sheet as at December 31:

(in millions)	1994		1993	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
Actuarial present value of benefit obligation:				
Vested	$ 3,939.4	$ 91.4	$ 3,811.6	$ 94.9
Non-vested	8.7	0.9	8.4	0.7
Accumulated benefit obligation	3,948.1	92.3	3,820.0	95.6
Effect of projected future salary increases	377.1	8.0	563.4	9.0
Projected benefit obligation (based on a weighted average discount rate of approximately 7% and a weighted average salary increase of approximately 3%)	4,325.2	100.3	4,383.4	104.6
Pension fund assets at market related values	4,151.7	60.9	4,242.3	58.7
Pension fund assets less than projected benefit obligation	(173.5)	(39.4)	(141.1)	(45.9)
Unamortized portion of net (asset) obligation at January 1, 1987*	174.0	6.2	199.2	6.5
Unamortized prior service cost*	188.7	0.7	207.5	0.6
Unamortized net (gain) loss*	(62.7)	1.3	(152.4)	1.9
Prepaid (accrued) pension cost in Consolidated Balance Sheet	$ 126.5	$ (31.2)	$ 113.2	$ (36.9)

*Being amortized over expected average remaining service lives of employees, generally 14 years.

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 7%.

CP Limited also has subsidiary-sponsored defined contribution plans. Pension expense from continuing operations for such plans, which generally equals the employer's required contribution, was $6.2 million, $5.4 million and $3.4 million in 1994, 1993 and 1992, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $12 million, $10 million and $9 million in 1994, 1993 and 1992, respectively.

22. Commitments and Contingencies

At December 31, 1994, commitments for capital expenditures amounted to $345.0 million and minimum payments under operating leases were estimated at $758.1 million in the aggregate, with annual payments in each of the five years following 1994 of: 1995 – $131.3 million; 1996 – $113.9 million; 1997 – $98.6 million; 1998 – $86.8 million; 1999 – $76.8 million.

At December 31, 1994, unused commitments for long term financing amounted to $817.2 million, at interest rates varying with bank prime or money market rates, with commitment fees ranging from .10% to .50%.

In addition to the above, unused lines of credit for short term and long term financing, subject to periodic review, repayable on demand and at various maturities, amounted to $889.1 million on which interest rates vary with bank prime or money market rates.

CP Limited has agreed, as part of the CP Trucks sales agreement dated September 26, 1994 to pay certain job security benefits to former CP Trucks unionized employees hired by the purchaser, if the purchaser ceases its operations in the first three years. If called upon to pay these benefits, CP Limited's liability would amount to between $20 million and $40 million.

CP Limited has also guaranteed the principal and interest obligations under loans made to the purchaser to fund severance payments and loans to fund road equipment purchases for periods up to eight years for a maximum of $30 million. At December 31, 1994, amounts outstanding on these loans amounted to $1 million.

23. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1994.

24. Supplementary Data

The discussion of Canadian and United States accounting principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between Canadian and United States GAAP. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on CP Limited's operating income and net income is summarized on the following page. The effect on the statement of changes in consolidated financial position is not significant, except that dividends are treated as a financing activity in the statement of changes in consolidated financial position under United States GAAP. The significant effect on the consolidated balance sheet, had it been prepared under United States GAAP, would be a decrease of net properties, other assets, deferred income taxes and retained income by approximately $314.3 million, $281.1 million, $281.4 million and $421 million, respectively.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The sinking fund method of providing depreciation followed by the Real Estate and Hotels business segment in accordance with Canadian GAAP is not an acceptable method under United States GAAP, which requires that the straight-line method be used.

CP Limited follows the Canadian method of accounting for income taxes, described as the deferral method, focusing on differences arising between financial statement income and taxable income. The method followed under United States GAAP, described as the liability method, focuses on differences between the book and tax value of assets and liabilities. In Canada, the income taxes are recorded using tax rates and regulations applicable in the year and are not changed in future years even though tax rates and regulations may change. In the United States, the tax liability is calculated using enacted future tax rates and regulations and is adjusted in future years if those tax rates and regulations are changed. The cumulative effect of prior years' differences is charged against earnings in 1993 which is the first year of adoption of the new United States standard.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and United States GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost components of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under United States GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on CP Limited's pension expense is included in the following table. The impact of the difference on the funded status of CP Limited's plans is not material.

CP Limited follows the Canadian practice of expensing costs related to post retirement health care and life insurance benefits when they are paid, whereas under the new United States accounting standard these costs, based on the terms of the plan, are recognized on an accrual basis during the years the plan participants provide the services. The cumulative effect of prior years' differences was charged against earnings in 1992 which was the first year of adoption of the new United States standard.

Canadian and United States Accounting Principles (cont'd)

For the Year ended December 31 (in millions, except amounts per share)	1994	1993	1992
Operating income			
Canadian GAAP	$ 1,113.9	$ 931.6	$ 263.1
United States GAAP	1,040.9	875.7	149.8
Income (loss) from continuing operations			
Canadian GAAP	409.8	(9.8)	(195.6)
United States GAAP	318.1	2.1	(346.8)
Net income (loss)			
Canadian GAAP	393.1	(190.6)	(478.3)
United States GAAP	289.0	(117.8)	(693.9)
Earnings (loss) per Ordinary Share			
Income (loss) from continuing operations			
Canadian GAAP	1.21	(0.03)	(0.61)
United States GAAP	0.94	0.01	(1.09)
Net income (loss)			
Canadian GAAP	1.16	(0.60)	(1.50)
United States GAAP	0.85	(0.37)	(2.18)
The following is a reconciliation of net income (loss) under Canadian GAAP to net income (loss) under United States GAAP:			
Net income (loss) – Canadian GAAP	$ 393.1	$ (190.6)	$ (478.3)
Increased or (decreased) by:			
Oil and gas	11.5	10.7	10.2
Real estate and hotels	(28.7)	(22.8)	(16.3)
Deferred income taxes	15.8	65.5	–
Foreign exchange	(57.8)	(22.8)	(81.8)
Pension costs	(27.0)	(21.2)	(20.2)
Post retirement benefits	(5.4)	(3.3)	(44.2)
Other	–	5.8	1.2
Discontinued operations	(12.5)	60.9	(64.5)
Net income (loss) – United States GAAP	$ 289.0	$ (117.8)	$ (693.9)

Quarterly Financial Information (unaudited)
Statement of Consolidated Income

(in millions, except amounts per share)

For the three months ended	1994 March 31	1994 June 30	1994 Sept. 30	1994 Dec. 31
Revenues	$ 1,544.9	$ 1,866.3	$ 1,782.7	$ 1,859.5
Costs and Expenses				
Cost of goods sold and services	900.2	1,085.2	1,063.1	1,156.4
Selling, general and administrative	224.4	243.2	239.6	222.2
Depreciation, depletion and amortization	191.2	194.3	200.8	218.9
	1,315.8	1,522.7	1,503.5	1,597.5
Operating income	229.1	343.6	279.2	262.0
Interest expense, net	112.8	102.8	96.6	90.9
Other expenses (income)	23.5	(55.4)	15.8	6.7
Income before income taxes, minority interest and equity in income	92.8	296.2	166.8	164.4
Income tax expense (recovery)	36.7	64.0	35.4	33.8
Minority interest share of income of subsidiaries	7.6	10.6	12.5	8.9
Income before equity in income of associates	48.5	221.6	118.9	121.7
Equity in income (loss) of:				
– Unitel Communications Holdings Inc.	(28.3)	(32.0)	(28.4)	(26.1)
– Laidlaw Inc.	1.9	7.6	(2.9)	7.3
Income (loss) from continuing operations	22.1	197.2	87.6	102.9
Discontinued operations	(4.9)	1.2	(10.1)	(2.9)
Net income (loss)	$ 17.2	$ 198.4	$ 77.5	$ 100.0
Earnings (loss) per Ordinary Share				
Income (loss) from continuing operations	$ 0.07	$ 0.59	$ 0.25	$ 0.30
Net income (loss)	$ 0.05	$ 0.60	$ 0.22	$ 0.29

Operating income for the three months ended December 31, 1994 includes write-downs of $30.7 million described in Note 2.

Other income for the three months ended June 30, 1994 includes a gain of $76.7 million realized from exchangeable term loan and related United Dominion Industries disposition rights agreements.

Quarterly Financial Information (unaudited)
Statement of Consolidated Income

(in millions, except amounts per share)

For the three months ended	1993 March 31	June 30	Sept. 30	Dec. 31
Revenues	$ 1,421.5	$ 1,593.7	$ 1,597.1	$ 1,724.5
Costs and Expenses				
Cost of goods sold and services	859.7	952.3	954.5	1,013.2
Selling, general and administrative	227.7	230.2	215.8	220.9
Depreciation, depletion and amortization	174.9	182.9	182.3	190.8
	1,262.3	1,365.4	1,352.6	1,424.9
Operating income	159.2	228.3	244.5	299.6
Interest expense, net	111.4	127.1	130.1	115.3
Other expenses (income)	(14.8)	8.0	(14.4)	29.2
Income before income taxes, minority interest and equity in income	62.6	93.2	128.8	155.1
Income tax expense (recovery)	(24.8)	8.3	29.8	39.6
Minority interest share of income of subsidiaries	9.1	8.3	7.7	8.2
Income before equity in income of associates	78.3	76.6	91.3	107.3
Equity in income (loss) of:				
– Unitel Communications Holdings Inc.	(7.9)	(20.3)	(25.1)	(230.1)
– Laidlaw Inc.	4.4	(10.2)	(81.3)	7.2
Income (loss) from continuing operations	74.8	46.1	(15.1)	(115.6)
Discontinued operations	(53.1)	(34.1)	(91.7)	(1.9)
Net income (loss)	$ 21.7	$ 12.0	$ (106.8)	$ (117.5)
Earnings (loss) per Ordinary Share				
Income (loss) from continuing operations	$ 0.23	$ 0.15	$ (0.05)	$ (0.36)
Net income (loss)	$ 0.07	$ 0.03	$ (0.33)	$ (0.37)

Operating income for the three months ended December 31, 1993 includes write-downs of $37.3 million described in Note 2.

Other income for the three months ended March 31, 1993 includes a gain of $28.5 million on sale of United Dominion Industries Limited appreciation rights.

Equity in loss of Unitel Communications Holdings Inc. for the three months ended December 31, 1993 includes write-downs and restructuring costs of $203.3 million.

(dollars in millions, except amounts per share)	1994	1993	1992	1991
Revenues				
Continuing operations	$ 7,053.4	$ 6,336.8	$ 6,786.8	$ 7,595.2
Operating income (loss) from:				
Transportation	$ 363.0	$ 299.7	$ (325.0)	$ 17.6
Energy	505.8	397.9	321.7	184.5
Real Estate and Hotels	245.1	234.0	253.2	134.4
Telecommunications and Manufacturing	–	–	13.2	35.8
	$ 1,113.9	$ 931.6	$ 263.1	$ 372.3
Income (loss) from continuing operations	$ 409.8	$ (9.8)	$ (195.6)	$ (434.3)
Net income (loss)	$ 393.1	$ (190.6)	$ (478.3)	$ (913.8)
United States GAAP				
Income (loss) from continuing operations	$ 318.1	$ 2.1	$ (346.8)	$ (563.6)
Net income (loss)	$ 289.0	$ (117.8)	$ (693.9)	$ (1,037.4)
Total assets	$ 16,912.3	$ 17,134.3	$ 20,275.2	$ 20,638.5
Total capitalization				
Total long term debt	$ 4,883.8	$ 6,063.3	$ 7,715.9	$ 7,215.3
Perpetual 4% Consolidated Debenture Stock	194.5	178.1	172.4	176.4
Minority shareholders' interest in subsidiary companies	291.1	265.6	815.2	867.0
Shareholders' equity	6,814.3	6,030.7	6,313.4	6,741.0
	$ 12,183.7	$ 12,537.7	$ 15,016.9	$ 14,999.7
Per Ordinary Share:				
Income (loss) from continuing operations				
Canadian GAAP	$ 1.21	$ (0.03)	$ (0.61)	$ (1.37)
United States GAAP	$ 0.94	$ 0.01	$ (1.09)	$ (1.77)
Net income (loss)				
Canadian GAAP	$ 1.16	$ (0.60)	$ (1.50)	$ (2.87)
United States GAAP	$ 0.85	$ (0.37)	$ (2.18)	$ (3.26)
Dividends	$ 0.32	$ 0.32	$ 0.32	$ 0.63
Number of Ordinary Shares (in millions)				
Year-end	341.8	319.4	319.1	318.7
Average	337.5	319.2	318.8	318.5
Rate of return on average shareholders' equity	6.1%	(3.1)%	(7.3)%	(12.5)%
Debt:equity ratio	42:58	50:50	53:47	49:51

1990	1989	1988	1987	1986	1985
$ 7,752.6	$ 7,571.1	$ 7,405.9	$ 7,048.0	$ 7,865.1	$ 7,838.7
$ 317.8	$ 256.5	$ 484.4	$ 586.3	$ 446.2	$ 410.4
424.0	297.6	234.4	323.5	310.1	626.8
264.4	354.6	298.5	205.2	199.2	179.9
37.3	84.2	78.8	53.3	70.5	91.2
$ 1,043.5	$ 992.9	$ 1,096.1	$ 1,168.3	$ 1,026.0	$ 1,308.3
$ 381.3	$ 489.9	$ 425.3	$ 275.2	$ 149.9	$ 371.3
$ 355.3	$ 745.2	$ 820.1	$ 826.3	$ (80.3)	$ 252.7
$ 340.5	$ 506.0	$ 478.8	$ 332.2	$ 187.0	$ 334.9
$ 320.3	$ 768.3	$ 887.6	$ 923.5	$ (5.5)	$ 230.9
$ 20,274.9	$ 19,099.7	$ 17,702.2	$ 18,052.1	$ 17,750.1	$ 21,382.9
$ 4,564.4	$ 4,256.4	$ 3,836.0	$ 4,469.8	$ 5,114.7	$ 6,683.5
180.1	162.9	178.1	197.7	184.6	185.0
1,043.3	1,238.8	1,073.4	1,139.0	1,344.7	2,031.7
7,854.5	7,823.6	7,330.2	6,460.1	5,780.5	6,059.6
$ 13,642.3	$ 13,481.7	$ 12,417.7	$ 12,266.6	$ 12,424.5	$ 14,959.8
$ 1.20	$ 1.54	$ 1.37	$ 0.91	$ 0.50	$ 1.68
$ 1.07	$ 1.59	$ 1.55	$ 1.10	$ 0.63	$ 1.51
$ 1.11	$ 2.35	$ 2.65	$ 2.75	$ (0.27)	$ 1.14
$ 1.00	$ 2.42	$ 2.87	$ 3.07	$ (0.02)	$ 1.04
$ 0.92	$ 0.84	$ 0.68	$ 0.54	$ 0.48	$ 0.48
318.2	318.2	316.9	302.8	299.5	297.7
318.5	317.3	309.1	300.5	298.3	220.8
4.5%	9.8%	11.9%	13.5%	(1.4)%	4.8%
35:65	33:67	32:68	38:62	43:57	46:54

At December 31, 1994	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ 69.8	–
Quebec	671.2	5
Ontario	1,913.4	15
Manitoba	253.9	2
Saskatchewan	584.2	5
Alberta	3,959.5	31
British Columbia	1,827.0	14
N.W.T., Yukon & Offshore	21.2	–
Transportation Equipment	822.2	7
	10,122.4	79
Outside Canada		
United States	2,381.1	19
Other	97.4	1
Ocean Ships	77.3	1
	2,555.8	21
Total	$ 12,678.2	100

Ordinary Share Market Prices

Toronto Stock Exchange

	1994		1993	
	High	Low	High	Low
	(Canadian Dollars)			
First Quarter	24¾	21⅛	19⅛	15⅞
Second Quarter	23	19⅝	21½	18¾
Third Quarter	24½	20	22	18⅝
Fourth Quarter	22¾	19¼	23⅛	20⅝
Year	24¾	19¼	23⅛	15⅞

New York Stock Exchange

	1994		1993	
	High	Low	High	Low
	(U.S. Dollars)			
First Quarter	18½	15⅜	15⅜	12⅝
Second Quarter	16⅝	14¼	17	14⅞
Third Quarter	18	14½	16⅞	14⅝
Fourth Quarter	16⅞	14	17⅝	15½
Year	18½	14	17⅝	12⅝

Transfer Agents

Montreal Trust Company
1690 Hollis Street
Halifax, N.S. B3J 3J9
(902) 496-2300

53 King Street
Saint John, N.B. E2L 1G5
(506) 632-2141

Place Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9
(514) 982-7555

151 Front Street West
Toronto, Ontario M5J 2N1
(416) 981-9633

221 Portage Avenue
Winnipeg, Manitoba R3B 2A6
(204) 943-0451

1778 Scarth Street
Regina, Saskatchewan S4P 2G1
(306) 525-3786

411-8th Avenue, S.W.
Calgary, Alberta T2P 1E7
(403) 267-6555

510 Burrard Street
Vancouver, B.C. V6C 3B9
(604) 661-0222

Bank of Montreal Trust Company
77 Water Street
New York, N.Y. 10005
(212) 701-7671

Deputy Secretary,
Canadian Pacific Limited
62-65 Trafalgar Square
London, England WC2N 5DY
0171-798-9898

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, England Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, England Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and
London, England Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver,
New York and London, England Stock Exchanges

Trading Symbol

Toronto and New York
Stock Exchanges – CP

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through reinvesting cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Duplicate Annual Reports

While every effort is made to avoid duplication, some Canadian Pacific Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to the Vice-President and Secretary so that arrangements may be made to avoid duplicate mailings.

Investor Relations

Institutional investors, brokers, security analysts and others desiring financial information about Canadian Pacific should contact:

Ms. S. McIntosh
Assistant Vice-President
Corporate Communications
Canadian Pacific Limited
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

Shareholder Relations

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form should write to:

Mr. D.J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

Board of Directors

[4,6] Lloyd I. Barber, C.C., Ph.D.
President Emeritus
University of Regina
Regina

[1,3,5,7] Michel F. Bélanger, C.C.
Chairman of the Board
Avenor Inc.
Montreal

[2,4] Ms. Dian Cohen, C.M.
President
Dian Cohen
Productions Limited
Montreal

[4] M. James Fielding
Chairman of the Board
Alexander Centre
Industries Limited
Sudbury

[4] Ardagh S. Kingsmill, Q.C.
Partner, Law Firm of
McCarthy Tétrault
Toronto

[4] The Hon. Peter Lougheed,
P.C., C.C., Q.C.
Partner, Law Firm of
Bennett Jones Verchère
Calgary

[1,2,6] Angus A. MacNaughton
President
Genstar Investment
Corporation
Foster City, CA.

[6] John D. McNeil
Chairman and
Chief Executive Officer
Sun Life Assurance Company
of Canada
Toronto

[2,3,5,6,7] Stanley A. Milner, LL.D.
President and
Chief Executive Officer
Chieftain International Inc.
Edmonton

[1,2,3,5,7] William D. Mulholland
Farmer, former Chairman
of the Board and
Chief Executive Officer
Bank of Montreal
Toronto

[4,5,7] David P. O'Brien*
President and
Chief Operating Officer
Canadian Pacific Limited
Montreal

[3,5,7] James A. Pattison, O.C.
Chairman, President and
Chief Executive Officer
Jim Pattison Group Inc.
Vancouver

[1,3,5,6,7] C. Douglas Reekie
Vice-Chairman of the Board
CAE Inc.
Toronto

[4,5,7] I. Barry Scott**
Executive Vice-President,
Canadian Pacific Limited and
Chairman and
Chief Executive Officer,
CP Rail System
Montreal

[2] Ronald D. Southern,
C.M., M.B.E., LL.D.
Chairman and
Chief Executive Officer
ATCO Ltd. and
Canadian Utilities Limited
Calgary

[5,7] William W. Stinson
Chairman and
Chief Executive Officer
Canadian Pacific Limited
Montreal

[3,5,6,7] Allan R. Taylor, O.C.
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada
Toronto

The Right Hon. The Viscount Weir
Chairman
The Weir Group, PLC
Glasgow, Scotland

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Corporate Governance and Nominating Committee
[4] Member of Environmental and Safety Committee
[5] Member of Executive Committee
[6] Member of Management Resources Committee
[7] Member of Pension Trust Fund Committee

* Appointed February 13, 1995
** Retired February 28, 1995

Officers

W.W. Stinson
Chairman and
Chief Executive Officer
Montreal

D.P. O'Brien*
President and
Chief Operating Officer
Montreal

W.R. Fatt
Executive Vice-President
and Chief Financial Officer
Toronto

R.K. Gamey
Executive Vice-President
Toronto

I.B. Scott**
Executive Vice-President
Montreal

K.S. Benson
Vice-President Personnel
and Administration
Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

J. Gilden
Vice-President Law
Montreal

M.J. Patava
Vice-President and Treasurer
Toronto

J. Thomson
Vice-President and
Comptroller
Montreal

N.E. Wale
Vice-President
Planning and Analysis
Montreal

* Appointed February 13, 1995
** Retired February 28, 1995

Canadian Pacific Charitable Foundation

The Canadian Pacific Charitable Foundation was established in 1994. The Foundation will continue Canadian Pacific's longstanding program of contributing to worthy Canadian charities and will strive to enhance the common good and quality of life in communities served by the Corporation and its wholly-owned subsidiaries.

Canadian Pacific is a sponsor of the IMAGINE campaign to encourage personal and corporate philanthropy. IMAGINE's 400 Caring Companies are committed to donating at least one percent of average pre-tax profits and encouraging current and retired employees to give and volunteer their time to community charitable activities.

A copy of the 1994 annual report of each of the following businesses can be obtained by writing to the address shown below:

CP Rail System
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta T2P 2S5

Marathon Realty Holdings Inc.
200 Wellington St. West
Suite 400
Toronto, Ontario M5V 3C7

Canadian Pacific Hotels & Resorts Inc.
One University Avenue
Suite 1400
Toronto, Ontario M5J 2P1

Laidlaw Inc.
3221 North Service Road
P.O. Box 5028
Burlington, Ontario L7R 3Y8

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale Centre-ville, Montréal (Québec) Canada H3C 3E4

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P.O. Box 6042, Station Centre-ville
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Telephone: (514) 395-5151

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Legal deposit, 1st quarter 1995
Printed in Canada

Suite 800, Place du Canada
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

Canadian Pacific Limited

William W Stinson
Chairman and
Chief Executive Officer

March 27, 1995

Dear Shareholder:

You are cordially invited to attend the 114th annual meeting of shareholders of Canadian Pacific Limited at the Hotel Macdonald in Edmonton on Wednesday, May 3, 1995 at 11 a.m.

Enclosed with this letter are the Corporation's 1994 annual report, the notice of meeting and management proxy circular, and a form of proxy. This material describes the items of business to be dealt with at the meeting and provides you with other pertinent information about the Corporation, its directors and executive officers.

We very much welcome your attendance at the annual meeting. If you are unable to attend, you can be represented by proxy and ensure that your shares are voted according to your wishes. The form of proxy enables you to signify your voting intentions in advance, whether or not you plan to attend the meeting. Please complete, date and sign the card and return it in the envelope provided.

Arrangements have been made for Montreal Trust Company, the Corporation's transfer agent, to count and tabulate proxies deposited in connection with the meeting. Proxies will not be submitted to management except where they contain comments clearly intended for management, in the event of a proxy contest, or to meet legal requirements.

You will have an opportunity to meet directors and executives of the Corporation at a light lunch following the meeting. I look forward to seeing you there.

Yours truly,

W.W. Stinson